The Economist

Wolfowitz to the World Bank
PAGE 15

The guilt of Bernie Ebbers
PAGE 67

Drugs firms in crisis
PAGES 18 AND 73-75

TURKEY LOOKS TO EUROPE
A SURVEY, AFTER PAGE 54

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Jacques Chirac, homme de gauche?
PAGE 49

Wolfowitz to the World Bank
PAGE 13

TURKEY LOOKS TO EUROPE
A SURVEY, AFTER PAGE 62

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WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
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Management Reading
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**Politics this week**
**Business this week**

### Leaders

Reforming the intelligence services
**The spy game**

Britain's budget
**Did I get away with it?**

The World Bank
**Wolf at the door**

European economic reforms
**From Lisbon to Brussels**

Nigeria's debt
**No longer unforgivable**

The drug industry
**Safety in numbers**

### Letters

**On Larry Summers, identity, China, flat taxes, property, soldiers**

### Special Report

America's intelligence reforms
**Can spies be made better?**

Britain's intelligence services
**Cats' eyes in the dark**

### United States

Economic policy
**Not exactly major league**

Freedom of speech
**Harvard's disgrace**

Selling America
**Another lady with a tough job**

Fake news
**Don't worry. It's only Little Brother**

Maryland's next senator
**The despot's heel is on thy shore**

The Arctic National Wildlife Refuge
**Come on in**

Same-sex marriage
**Simply put, he explained**

Lexington
**The last-chance saloon**

### The Americas

Argentina
**Taking on foreigners, again**

Mexico
**The race goes on**

Bolivia
**A president under siege**

Air India bombing
**A controversial verdict**

Honduras
**Unwanted tourists**

### Asia

The Philippines

### A survey of Turkey

**Looking to Europe**
**Which Turkey?**
**Surprisingly European**
**City lights**
**The wrongs and rights of minorities**
**A woman's place**
**Troublesome neighbours**
**A promising start**
**Den of thieves**
**Turkey's curriculum**
**Sources**
**Offer to readers**

### Business

Corporate crime
**WorldCom's cowboy bites the dust**

Wireless e-mail
**Attack of the BlackBerry killers?**

Municipal Wi-Fi
**Wi-Fi pie in the sky**

Advertising
**Consumer republic**

Hotels
**Budget room**

Warner Music
**A hit on their hands**

Disney
**A new mouseketeer**

Face value
**Some like it hot**

### Special Report

The drugs industry
**An overdose of bad news**

### Finance & Economics

American International Group
**Hank yanked**

America's current-account deficit
**Wide gap, wide yawn**

OPEC
**The central bank takes stock**

A bank scandal in China
**China Corruption Bank**

European banks
**Divided we fall**

Economics focus
**Putting things in order**

### Science & Technology

Astrophysics

China's economy
**Budgeting for harmony**

China and the media
**Next question, please**

India and America
**Happy ending?**

Myanmar
**Soft on forced labour**

South Korea
**Banged to rights**

## Middle East & Africa

Israel and its neighbours
**Is the turmoil good or bad for Israel?**

Lebanon and its media
**Battle of the airwaves**

Côte d'Ivoire
**On the brink**

South Africa
**Prejudging the judges**

Central African Republic
**A sleazy poll**

## Europe

The French president
**Jacques Chirac, socialist**

Italy's economy
**Slowly to market**

Italy and Iraq
**Arrivederci?**

German laws
**Sonderbar**

Russia and Ukraine
**Making up is hard to do**

Greece's government
**Costas's crusade**

Charlemagne
**Back to Bosnia**

## Britain

The budget
**And on to the election**

Abortion and politics
**The foetal position**

Birdwatching
**Starling-struck**

Red tape
**It's a start**

Crime
**When policing doesn't pay**

University admissions
**Stuff, and nonsense**

Bagehot
**Study in Brown**

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Genetics
**The X-files**

Artificial life
**DN-New**

South African elephants
**Mulling a cull**

**Clarification: the International Space Station**

## Books & Arts

American justice
**Rough and unready**

Development economics
**Thinking big**

New British fiction
**Organ failure**

French letters
**A tempest in petticoats**

19th-century exploration
**Waves of fortune**

British theatre
**A man of all seasons**

## Obituary

Obituary
**Hans Bethe**

## Economic and Financial Indicators

**Overview**

**Output, demand and jobs**

**Prices and wages**

**Workers' tax wedge**

**Money and interest rates**

**The Economist commodity price index**

**Stockmarkets**

**Trade, exchange rates and budgets**

**The Economist metals index**

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**Financial markets**

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# Politics this week

Mar 17th 2005
From The Economist print edition

## Condi goes to Asia

Reuters

America's secretary of state, **Condoleezza Rice**, visited six Asian countries: India, Pakistan, Afghanistan, Japan, South Korea and China. Before embarking on the tour, Ms Rice said she hoped an anti-secession law aimed at Taiwan, which the Chinese parliament passed this week, would convince the European Union not to lift its arms embargo against China.

See article

Meanwhile, **Taiwan's** president, Chen Shui-bian, called the anti-secession law (which authorises China's armed forces to use coercion against Taiwan if it plans to declare formal independence) a “law of aggression”. Street demonstrations against the law have been called for March 26th in Taipei, Taiwan's capital.

During Ms Rice's visit to **Afghanistan,** the country's president, Hamid Karzai, said that parliamentary elections scheduled for May would be delayed until September. Separately, five people were killed in an explosion in the southern city of Kandahar, a Taliban stronghold.

Abu Sayyaf, a local Islamic terrorist group in the **Philippines**, threatened to target Manila in revenge for the deaths of 22 of its members in a botched attempt to escape from jail. Three of the group's top leaders were killed after police stormed the prison.

Opposition candidates claimed the second round of voting for **Kirgizstan's** parliament was flawed. First results showed supporters of President Askar Akayev had won all but a handful of the 75 seats up for grabs.

## Throngs for peace

In response to last week's demonstration in Beirut by perhaps half a million **Lebanese** calling for Syrian forces to stay in the country, perhaps a million others this week filled the streets, shouting for them to go. President Bashar Assad of Syria continued to pull some of his forces out of Lebanon and promised to withdraw the remainder fast.

See article

The **Iraqi** parliament assembled formally for the first time since the election at the end of January. However, negotiations between the main Shia Arab party and the Kurdish alliance, which together hold more than three-quarters of the seats, had still not yet produced a new government.

The United Nations estimated that more than 180,000 people have died of war-induced hunger

and disease in the **Darfur** region of Sudan in the past 18 months. This figure does not include those murdered by Sudanese government-sponsored militias, which responded to the accusation by threatening to kill western aid workers.

After weeks of tussling over details, **Israel** signed over security responsibilities to the Palestinian Authority in Jericho, the first of five West Bank towns it is due to hand over in the wake of a peace summit last month in the Egyptian resort of Sharm el-Sheikh.

EPA

See article

A **Ugandan** delegation begged the International Criminal Court not to indict the leaders of the Lord's Resistance Army, a Ugandan rebel group that often tortures children. Ugandans worry that the threat of prosecution would scupper efforts to end the civil war by offering amnesty to rebels who surrender.

The **Central African Republic's** president, François Bozize, a former general who took power in a coup two years ago, looked sure to have won an election which few independent outsiders were allowed to observe.

See article

## Ciao to Iraq

Italy's prime minister, Silvio Berlusconi, said that he would like to withdraw **Italian troops** from Iraq, starting in September, though he later backtracked on the timetable.

See article

The European Union refused to open membership talks with **Croatia** that had been due to start on March 17th, saying that the Croatians are not co-operating enough over sending suspects to the war-crimes tribunal at The Hague.

Gerhard Schröder, the **German chancellor**, announced new economic reforms that he plans to discuss with the opposition. But the reforms were few and thin.

**Kosovo's** president, Ibrahim Rugova, survived an assassination attempt after his convoy of cars was bombed in Pristina.

**Anatoly Chubais**, boss of Russia's electricity utility, Unified Energy System, survived an apparent assassination attempt in Moscow. Mr Chubais, a former deputy prime minister, is a leading liberal opposition figure.

## Mesa in a mess

Amid mounting public protests against the government's economic policies, Carlos Mesa, **Bolivia's** president, said “the only way to prevent a bloodbath” was to call early elections in August, two years before the end of his term.

See article

A Canadian court in Vancouver cleared two Sikh men of involvement in the bombing of an **Air India** passenger jet in 1985. All 329 people on board died in the crash off the Irish coast. Most were Canadians of Indian origin.

See article

According to an American Senate investigation, **Augusto Pinochet**, the former Chilean dictator, stowed away more than $13m in 125 banks, including such big names as Bank of America, Coutts, Riggs Bank and Citigroup.

## Irish eyes are not smiling

Reuters

The White House withdrew its regular invitation to Gerry Adams, the leader of Sinn Fein, for its annual St Patrick's Day celebrations. Invited instead were the sisters and fiancée of Robert McCartney, who was murdered by suspected **Irish Republican Army** members in Belfast in January. Senator Edward Kennedy also refused to meet Mr Adams. Mitchell Reiss, America's envoy to Northern Ireland, called for the IRA to disband.

See article

George Bush nominated **Rob Portman**, a Republican congressman from Ohio, as the next United States trade representative (replacing Robert Zoellick, who has moved to the State Department). Mr Bush also picked **Paul Wolfowitz**, the administration's leading neo-conservative, to be the next president of the World Bank.

See article

The Senate voted, by 51-49, on an amendment to the budget bill that would open the way for a controversial oil-drilling project in an **Arctic wildlife refuge**. The legislation has been fought by environmentalists for the past four years.

See article

A San Francisco judge ruled that California's constitution could not stop **gay couples** getting married.

See article

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# Business this week

Mar 17th 2005
From The Economist print edition

## WorldCom's cowboy bites the dust

**Bernie Ebbers**, the former chief executive of WorldCom, was convicted for his part in an $11 billion fraud that led to the biggest corporate bankruptcy in America's history. The company's chief financial officer at the time, Scott Sullivan, appeared as a government witness and testified that Mr Ebbers had told him to fiddle the accounts to prop up the firm's share price (Mr Sullivan has already pleaded guilty). Sentencing will be held in June.

See article

**J.P. Morgan Chase** said it would pay $2 billion to settle a class-action suit by WorldCom shareholders. Several banks had already settled. Morgan's payment is the second-largest.

Maurice "Hank" Greenberg, 79, finally stepped down as chief executive of AIG, the world's biggest insurer, during an investigation by regulators into his role in an alleged transaction said to aim at smoothing the firm's financial results. Mr Greenberg's successor is Martin Sullivan, hitherto co-chief operating officer.

See article

The SEC filed a civil lawsuit against the former CEO of **Qwest**, Joseph Nacchio, and six other former executives. They are accused, among other things, of fraudulently reporting $3 billion in revenue to seal a merger with another telecom company in 2000. The SEC wants the executives to repay bonuses and options accrued during the period. Mr Nacchio denies the charges.

**Walt Disney** named Bob Iger as its new chief executive (from September 30th). The selection of Mr Iger, currently the firm's president, brought gripes from public funds unhappy with Michael Eisner's long, and recently criticised, tenure in the job; Mr Iger is Mr Eisner's chosen successor.

See article

**Viacom**, a big media group which owns many familiar TV and radio properties in America (such as MTV Networks), announced that it is considering splitting itself into two public companies in an effort to boost its share price.

## A packet for smokes

**Philip Morris** said it was offering $5.2 billion to buy **Sampoerna**, Indonesia's third largest maker of cigarettes. The deal underpins the importance of Asia's appetite for cigarettes to tobacco companies; almost 220 billion cigarettes are expected to be puffed in Indonesia this year.

**IBM** announced that it was buying yet another software company. The deal with Ascential, which makes software to integrate databases from varying computer systems, is worth $1.1 billion.

Shares in **TiVo**, which produces a digital video-recording service, jumped 50% on news that Comcast, America's biggest cable company, will use TiVo in a new service to its customers. Digital technology provides various options to TV viewers, such as finding and recording programmes.

Research in Motion, the Canadian maker of **BlackBerry** wireless e-mail systems, agreed to pay NTP, a technology company based in Virginia, $450m to settle a lawsuit. NTP claimed that RIM had infringed 16 of its patents.

See article

## Desirable properties

**Metrovacesa**, a Spanish property group, initiated a *euro*5.5 billion ($7.4 billion) bid for Gecina, a French property group. If completed, the deal will create the largest property company in the euro area, with assets of *euro*13.6 billion.

**General Motors** gave warning that it is now expecting to make a loss in the first quarter and cut its earnings forecast for 2005. Yield spreads on GM's bonds widened sharply on the news; GM's debt is rated just above junk status by leading credit-rating agencies.

The chairman of **China Construction Bank**, Zhang Enzhao, was ousted and reportedly under house arrest in a corruption probe. CCB plans to float an IPO, valued at up to $10 billion, on the Hong Kong exchange later this year.

See article

**Lehman Brothers**, a large investment bank, reported net income of $875m for the three months ending February 28th, a 31% rise on a year earlier. Lehman advised on four of the top ten mergers that took place within the quarter.

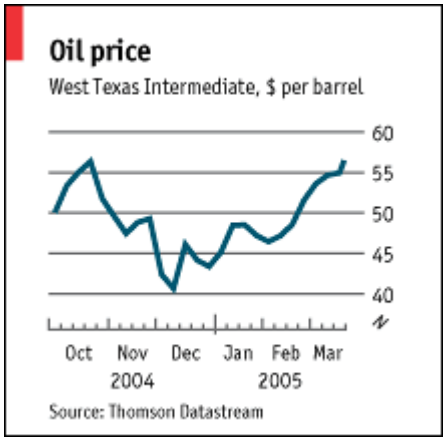
America's **current-account deficit** hit $665.9 billion in 2004, a 25.5% increase on 2003. Last week, America posted its second-biggest monthly trade deficit in goods and services ever ($58.3 billion in January), which included a 33% jump in its deficit in goods traded with China compared with January 2004.

See article

## A new peak

OPEC agreed to raise oil production by 500,000 barrels a day to 27.5m. The move, announced at a meeting in Isfahan, Iran, came after Saudi Arabia's oil minister said that the current **oil price**, which broke $56 per barrel for the first time this week, was unjustified. The oil markets were cautious, worrying that OPEC's spare capacity may not meet demand next winter.

See article

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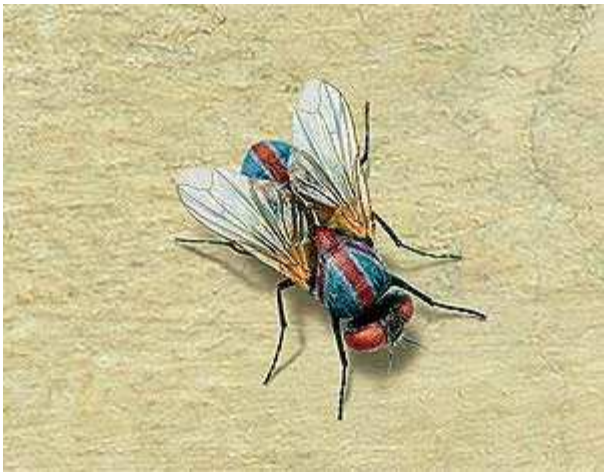
Economist.com OPINION

Reforming the intelligence services

# The spy game

Mar 17th 2005
From The Economist print edition

**The use and abuse of secret agencies**



Get article background

“AN ARMY without secret agents”, Sun Tzu observed 2,500 years ago in “The Art of War”, “is exactly like a man without eyes and ears.” From Moses and Caesar to Churchill and Stalin, rulers have made use of spies to ferret out useful information about their opponents, both at home and abroad. Yet even as governments have built up their intelligence services, they have cursed the failings of their spies: their cost, their tendency to break the law and, above all, their habit of getting things wrong.

America's and Britain's spying operations both stand cursed at the moment (see article). Two years after the Iraq war began, both services are guilty first of supplying faulty information about Saddam Hussein's weapons of mass destruction and then of letting that information be exaggerated, or at least simplified, by their political masters. America's vast security apparatus also failed to prevent the September 11th atrocity. Add in other errors from the not-so-recent past—the failure to foresee the end of the Soviet Union or that India and Pakistan would go nuclear—and these intelligence systems look dangerously accident-prone.

## More money, more power, same old faces

On the face of it, the spies have been punished for this failure in a curious way. They have been given vastly more money to spend. Their powers have been increased, particularly in surveillance. And, given the immensity of their failures, remarkably few senior spooks have been removed or punished. George Bush recently awarded the congressional medal of freedom to the CIA director, George Tenet, who reportedly called the evidence of WMD in Iraq “a slam-dunk”.

In fact, both countries have now launched their most thorough intelligence reorganisations since the end of the second world war. In America, the change is more obvious. George Bush has appointed a new intelligence overlord who is supposed to bond together America's unwieldy 15 agencies (and a $40 billion budget): John Negroponte, the current ambassador to Iraq, goes before a Senate confirmation hearing next month. There is to be a new National Counter-Terrorism Centre. Mr Bush has also installed a new director at the CIA, Porter Goss, who has caused a fuss in Langley by booting out a few of the CIA's top brass. And the CIA and the FBI, long reluctant allies, have been told to work together.

Britain's intelligence service is much smaller than America's and heavily reliant on it, especially for high-tech data. But it is one of only three truly global services (the other is Russia's), and for historical reasons is still looked up to in the business. Its reorganisation, on which a report is due to be presented to Parliament soon, has been more subtle than America's. It has its own new counter-terrorism centre, but it has focused largely on setting up double-check systems to see that material is genuine and assessments are challenged.

Do these reorganisations make sense? Or have the two countries just handed over more liberties and cash to bureaucrats skilled in telling politicians what they want to hear?

Two things caution against any rapid judgment. First, it is always hard to work out how good spies are (their main achievements are usually things that do not happen). Second, the main intelligence failures concerning both Iraq and September 11th were less to do with organisational flow-charts and money than with a shortage of rigour and flair. America relied too much on high-tech surveillance. It does not seem to have had any agents in either al-Qaeda or Saddamite Iraq—despite the fact that Saddam Hussein had plenty of enemies and Osama bin Laden was recruiting willy-nilly. September 11th happened largely because nobody at the time could conceive that it would happen; nowadays, the FBI might be more suspicious of young Arab gentlemen taking flying lessons without wanting to know how to land.

Putting those two caveats to one side, the current reorganisation in America still seems flawed. The old system—a mess of competing agencies mainly set up to collect information on other countries, not on shadowy non-state actors like Mr bin Laden—plainly needed changing. But the reforms look half-hearted. For instance, having a single figure in charge of intelligence probably makes sense, but even Mr Negroponte's new power will not give him a real grip on his sprawling empire (much of which is run by the Defence Department). America has also resisted the idea of setting up a domestic intelligence service similar to Britain's MI5; instead, it will persist with the idea of turning the FBI's policemen into spies.

## Freedom to snoop but not to imprison

What of the worries about civil liberties and political interference? Most of the new powers granted to the spooks have to do with surveillance and information-sharing. Those seem a regrettable necessity in the light of September 11th. What is important is that these new powers are regularly monitored and assessed. That brings in the question of political oversight, and it is here that the picture starts to cloud over.

On both sides of the Atlantic, the worry persists that the spies are too close to their masters. Mr Goss is a former Republican congressman; the current head of MI6, Sir John Scarlett, was in effect Tony Blair's main witness in the fuss about whether Downing Street “sexed up” its Iraqi dossier. The current reorganisations make too little attempt to clear up these conflicts of interest. This could matter enormously if the politicians once again call on intelligence to justify military action—in Iran, say, or North Korea.

In both Britain and America, the spies remain on watch. The current threats—terrorism and proliferation—have made their work both more important and much harder. Meanwhile, the comforting idea that technology would make spying more of a high-tech science was blown apart by September 11th and the Iraq fiasco; it is now a more risky, more human affair where real eyes and ears matter. So far the spooks have been given much of what they want: more money, more power and a relatively gentle reorganisation. They now need to prove their worth.

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Economist.com OPINION

Britain's budget

# Did I get away with it?

Mar 17th 2005
From The Economist print edition

**Gordon Brown's fiscal imprudence will help him into 10 Downing Street, but he'll pay in the end**

Reuters

PRE-ELECTION budgets are not what they used to be. Once upon a time, governments could be relied on to ply the electorate with extravagant giveaways in the run-up to polling day. But today's voters are a more cynical—or just knowledgeable—lot, so a more subtle approach is required. Gordon Brown's second pre-election budget, like his first, avoided traditional tax bribes to the electorate as a whole. Instead, Britain's chancellor opted for a selection of sweeteners, carefully directed at vital electoral target groups such as pensioners, poorer families and aspiring home-buyers (see article.)

But the similarity between the two budgets ends there. In 2001, the public finances were exceedingly healthy. Including measures announced in his pre-budget report, Mr Brown was able to give away £8 billion ($12 billion) in the fiscal year ahead while still forecasting a comfortable surplus. In this budget, Mr Brown was in a much weaker position. Even the wee sweeties he handed out were far too much, bearing in mind how bad the figures now look.

## Too much out, not enough in

In the past four years, Britain's public finances have lurched from black to red. In 2000-01, the government ran a surplus of £15.4 billion—1.6% of GDP. In 2004-05, it chalked up an estimated deficit of £34.4 billion—2.9% of GDP. Among the G7 advanced countries, only America has had a bigger deterioration in its structural (cyclically adjusted) balance over the past four years, according to OECD figures.

The deterioration has occurred on both sides of the ledger. When Mr Brown became chancellor in

1997, he made much of his prudence. Initially he had good reason: he held down spending during his first three years. But in 2000-01, the final fiscal year of Labour's first term, Mr Brown gave up prudence and turned extravagant. That marked the start of a spending spree that has carried on throughout Labour's second term of office. In the past four years, public expenditure has risen by 4.4% a year in real terms—nearly double the rate of economic growth over the period.

While spending has leapt ahead in Labour's second term, tax receipts have proved a big disappointment for the chancellor. In his first four years, the economy grew fast and taxes even faster. The tax take—revenues as a share of GDP—rose by 2.4 percentage points. But in Labour's second term, the economy grew more slowly and revenues have been slack. Over the past four years, the tax take has fallen by 1.2 percentage points of GDP despite a tax-raising budget in 2002.

Both the initial strength of tax revenues and their subsequent weakness came as a surprise to Mr Brown and his officials. In Labour's first term, the Treasury was consistently too pessimistic about revenues, which were unexpectedly buoyant because of the high incomes and profits generated in the dotcom boom. This forecasting error was at least understandable since the dotcom boom was an exceptional episode, but the chancellor then started to bank on this buoyancy continuing. When the tax take fell, he kept on assuming the fall was temporary, so his forecasts were over-optimistic.

Yet these reverses have not chastened Mr Brown. The chancellor has one good reason and one bad reason for remaining bullish about the outlook for the next four years.

The good reason is that he has already scheduled an end to his spending splurge in a year's time. Starting in 2006-07, total expenditure will grow only in line with the economy. The bad reason is that he expects a rise in the tax take of two percentage points between 2004-05 and 2007-08, taking it to its highest for two decades, without a tax-raising budget.

This scenario is fanciful. The IMF recently said that the forecast for revenues was too optimistic. The Institute for Fiscal Studies (IFS) estimated in January that next year's budget will have to raise taxes by £13 billion—more than 3p on the basic rate of income tax—if the government is to meet its fiscal rule of borrowing only to invest. Mr Brown is still planning on a deficit of 2% of GDP in 2007-08—leaving himself with little margin for error if things go wrong either economically or fiscally. In particular, he may encounter political resistance to the planned slowdown in public-spending growth. The National Health Service has an insatiable demand for cash, which means that the chancellor will have to enforce an unpopular clampdown in other areas of public spending.

There is also increasing concern about the growth in hidden fiscal liabilities. Net public debt as a share of GDP is the second lowest in the G7 countries. But Britain's rating is being flattered by the Private Finance Initiative—strenuously promoted by the chancellor—under which private companies borrow to fund public investment. Furthermore, the liabilities of unfunded public-sector pension schemes have ballooned in the past few years, such that they now exceed public debt.

## Power shifts

All this means that Mr Brown should be tightening more markedly. But he has two reasons not to. He needs Labour to get a big majority, and he needs to bolster his current popularity with voters (39% would like him as prime minister, compared with 30% for Tony Blair). Will he get away with it?

Probably for long enough to achieve his life's ambition, which may happen sooner than is generally expected. The contrast between him and Tony Blair on budget day (see article) was stark. Mr Blair

has been weakened by a long series of misfortunes and miscalculations, culminating last week in a parliamentary revolt against his anti-terror bill. Meanwhile, Mr Brown was trumpeting the economy's many successes while skirting around his fiscal failings. The balance of power between the two men has shifted, and the chances of Mr Blair staying in power for more than a couple of years after the next election have fallen commensurately.

But Mr Brown won't get away with it for long. The voters are not the only people who will have to pay for his imprudence. If, as he hopes, his profligacy helps propel him towards Number 10, Prime Minister Brown will have to sort out the problems that Chancellor Brown created.

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Economist.com OPINION

The World Bank

# Wolf at the door

Mar 17th 2005
From The Economist print edition

**Paul Wolfowitz is certainly an audacious choice to head the World Bank. Is he a good one?**

Reuters

SOMETIMES George Bush's chutzpah beggars belief. On March 16th he nominated Paul Wolfowitz—deputy defence secretary, hard-line neoconservative and intellectual architect of the Iraq war—to head the World Bank, barely a week after appointing John Bolton, another hard-liner, to be his man at the United Nations. Europeans and others were aghast, particularly about Mr Wolfowitz. How could Mr Bush, who promised a more conciliatory diplomatic touch in his second term, put one of his most controversial lieutenants into the world's top economic-development job? Clear proof, they fumed, that Mr Bush doesn't give a fig for multilateralism.

Is that fair? The appointment of Mr Wolfowitz at least shows that the Bush team takes the World Bank seriously. Mr Wolfowitz may be controversial, but he is certainly no lightweight—and the administration has appointed plenty of those to top economic jobs (see article). If Mr Bush and his team disdained the organisation, they would not have chosen him. Better questions are whether Mr Wolfowitz has the right talents for the job and, even if he does, whether his close association with Mr Bush dooms him to failure.

The World Bank is the world's biggest development agency—a sprawling bureaucracy that is extremely difficult to run well. Its leader needs to know about development, be able to articulate a workable vision and be a good manager. Mr Wolfowitz scores passably on two counts. He is not an economist or a banker, but has first-hand experience of developing countries (as American ambassador to Indonesia). He has public-sector management experience—not least as number two at the Pentagon, although the bungling in Iraq raises questions about just how good his management skills are.

The biggest concern is that Mr Wolfowitz is an idealist, some would say a Utopian, whose career

has been guided by zeal to bring democracy to the world—regardless of what the world might make of that ambition. Thus far, Mr Wolfowitz has focused on the relationship between democracy and security, but his belief in the power of democracy will surely colour his views of economic development as well.

So it should, you might say. But it is doubtful that Mr Wolfowitz's zealotry, albeit in that noble cause, is right for the Bank. Its job is alleviating poverty, and the relationship between democracy and the relief of poverty is, let us say, complicated. Think of China. There is also a risk in coming to the World Bank with a vision that is both grand and idiosyncratic—witness Robert McNamara, another Bank president fresh from the Pentagon with a mind to change the world. Haunted by Vietnam, Mr McNamara had big ideas for eliminating poverty and oversaw a huge expansion of the Bank. The result was bad lending and a weakened institution. Jim Wolfensohn, whom Mr Wolfowitz will replace, was likewise drawn to the grandiose. The Bank needs a realist more than a visionary.

Worse than this, however, is Mr Wolfowitz's closeness to Mr Bush. His appointment tells the world that Mr Bush wants to capture the World Bank and make it an arm of American foreign policy. If that is his intention, it is a mistake. As the biggest shareholder, America rightfully has outsize influence in the Bank. That does not mean the Bank should become Washington's tool. If Mr Wolfowitz is to be a credible and effective head of the Bank, his first task must be to dispel the suspicion that he is Mr Bush's lackey. His goal when he comes to make his first speech should be to disappoint his former boss.

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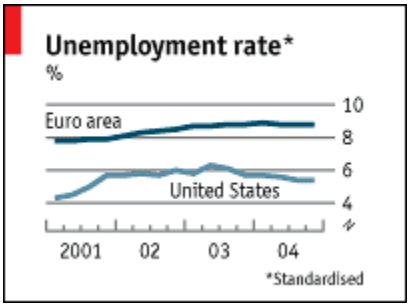
Economist.com OPINION

European economic reforms

# From Lisbon to Brussels

Mar 17th 2005
From The Economist print edition

**France, Germany and Italy are the biggest obstacles to economic reform in Europe**




NEXT week, European Union leaders gather in Brussels for a summit on the economy. Their meeting marks the halfway point in their supposed strategy, agreed in Lisbon in March 2000, to turn Europe into the world's most competitive economy by 2010. It is an objective they are manifestly failing to achieve—even though the new European Commission president, José Manuel Barroso, coincidentally a Portuguese, has made a relaunch of the Lisbon agenda, to ensure it is not "decaffeinated" as he puts it, the centrepiece of his presidency.

This is not to say that all of Europe is doing badly. By some measures Finland is the world's most competitive country, with Denmark, Ireland and Sweden close behind. Germany and France, the two biggest euro-area economies, have some of the world's strongest companies. Germany is the world's biggest exporter. And growth has not been universally poor. In terms of productivity per hour worked, Europe matches America. Many small EU economies, including the new central European members, are growing fast. Yet growth in the core euro-area countries remains sluggish at best. Unemployment in Germany, France and Italy is 10% or more, and far worse for the young and those near retirement age. Over 5m Germans are out of work, the most since the 1930s.

What is wrong with Europe? Some of the answer is macroeconomic: the three core countries all suffer from a lack of demand. The one-size-fits-all monetary policy of the European Central Bank has saddled Germany, in particular, with higher interest rates than it wanted—though with the ECB's rate at just 2%, the pain cannot be terribly searing. Fiscal policy is more problematic, because the euro-area's ill-named stability and growth pact has stopped governments pepping up their economies through tax cuts. As it happens, next week's summit may spend more time squabbling over the stability pact than discussing the Lisbon agenda. It would do better to scrap the pact briskly rather than tinker with it, to give more fiscal freedom (but also responsibility) to national governments—and then to focus on relaunching Europe's economic reforms.

## The reluctant reformers

For the biggest failings in the euro area remain microeconomic, not macroeconomic. There is a reason why Denmark and the Netherlands have higher employment and lower unemployment than Germany and France: it is that the latter two have overly regulated labour markets, tougher hire-and-fire rules and high minimum wages. The evidence that excessive interference to "protect" people in work penalises those who are out of work has seldom been as clear as in Europe over the past five years. As this week's Lisbon scorecard from the Centre for European Reform (CER), a think-tank, shows, a similar story emerges on energy and telecoms liberalisation, competition in financial services, industrial subsidies and the rest: countries that have been fastest to open their markets to competition have outperformed those that have been slowest—notably France,

Germany and Italy.

These three countries are still Europe's back-markers on economic reform. Their governments have pushed through some politically painful measures to shake up labour markets, cut pension burdens and increase working hours. But the CER report names Italy as the villain of the Lisbon piece. And Germany and France are leading the opposition to the EU's services directive, intended to liberalise cross-border trade in services. The effort to “protect” services from competition is spectacularly wrong-headed. Services now account for 70% of euro-area GDP, and for all of net job growth in the past five years. An official French report last autumn suggested that opening France's services sector to as much competition as America's could generate over 3m new jobs.

So why are the leaders of France, Germany and Italy so hesitant about reform? The answer lies in domestic politics. France's Jacques Chirac, behaving like a left-winger, is eagerly appeasing union protesters against change (see article). Germany's Gerhard Schröder, struggling with unpopularity, talks of more reforms, but on too timid a scale. Italy's Silvio Berlusconi is nervous about April's regional elections. Even Mr Barroso, opponent of decaffeinated reform, is reluctant to press for stronger measures, fearing that scare stories of American capitalism trumping the European social model may scupper referendums on the EU constitution. Such alarm is specious: if they look north, not west, EU leaders can see Nordic countries doing well and keeping their social model. It is not the Lisbon agenda that threatens the model: it is failure to reform.

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Economist.com OPINION

Nigeria's debt

# No longer unforgivable

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From The Economist print edition

**Ridiculous though it sounds, Nigeria merits some debt relief**

Reuters

IF ONE considers how Nigeria has handled its oil revenues over the past 30 years, its quest for debt relief seems laughable. Its oil wells have yielded hundreds of billions of dollars, which its politicians have largely stolen or squandered. Nigeria is scarcely less poor than before its oil boom began. And, since successive governments borrowed against future oil receipts and wasted that money too, the country is saddled with some $34 billion in foreign debt. Such a record suggests that extra cash freed up by debt relief would be frittered away.

But look at the past year and a half, and a different picture emerges. A new economic team, led by the finance minister, a former World Bank director called Ngozi Okonjo-Iweala, has made strenuous efforts to impose discipline. Recent high oil prices have generated an unexpected revenue surplus, which previous Nigerian governments would have spent. This one has saved it, on the wise assumption that prices will eventually fall. The federal government has also cajoled Nigeria's 36 states to save their share of the windfall. This is unprecedented. State governors are powerful, jealous of their prerogatives and often the kind of folk who, ahem, are glad that a governorship confers immunity from prosecution.

Not only is the government starting to spend within its means; the reformers are also trying to ensure that public funds are spent more transparently. The sums allocated to each level of government are now published, and there has been some progress in curbing graft. More open tendering for public contracts, for example, has saved about $1 billion, by the government's estimate. The International Monetary Fund (IMF) describes Nigeria's recent record as “commendable”.

## Make it gradual and conditional

There are three main reasons for granting Nigeria debt relief. One is that much of its debt is “odious”; that is, it was accrued under military dictators. Since Nigerians did not choose these regimes, it seems unfair that they should have to repay the loans that foreigners were foolish enough to make to them. Nigeria has been a democracy since 1999, and is now somewhat less ill-governed than before, which brings us to the second reason: that there is a fair chance that the proceeds of debt relief would be invested sensibly.

The third reason is that Nigeria's reformers need a boost. They are fighting a lonely battle against a rich, corrupt and entrenched political class, braving occasional death threats to try to clean up one of the world's filthiest polities. Ordinary Nigerians largely support them, but many expect them to fail. Last week, the habitually irresponsible lower house of Nigeria's national assembly voted to stop servicing the country's foreign debts. The upper house overruled it, but the vote underlined the reformers' vulnerability. Outsiders have been slow to back them. Among Nigeria's chief creditors, only Britain is whole-heartedly supportive of debt relief. Others are either hostile (eg, Germany) or undecided (eg, the United States).

There are reasonable objections to forgiving Nigeria's debts. The government is still riddled with corruption, and not nearly enough has been done to prosecute crooked officials. Some would argue that with all its oil, Nigeria is too rich to need relief. This is wrong. Nigeria may have a lot of oil, but it has a lot of people too. Divide its oil revenues by 130m and each Nigerian gets only half a dollar a day. Nigeria is poorer than several countries that have qualified for relief under the IMF's programme for Heavily Indebted Poor Countries, and no more corrupt than some. To qualify for HIPC, countries must submit to a formal IMF restructuring programme. Nigeria refuses, arguing that reforms that are too obviously foreign-imposed will arouse fervent opposition, and therefore fail.

Debt relief need not be sudden or unconditional. Creditors could make successive tranches dependent on continuing progress towards fiscal conservatism and public probity. The carrot of debt relief would surely increase the chance that essential laws, such as a long-delayed Fiscal Responsibility Bill, are passed. It should also reduce the chance that reform will be abandoned after the next election, in 2007. It might not work, of course. But if Africa is to succeed, its most populous nation must stop failing. Its creditors should give it a chance.

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Economist.com OPINION

The drug industry

# Safety in numbers

Mar 17th 2005
From The Economist print edition

**Americans are in danger of over-regulating the drug industry. There is a better way**

Alamy

“THE dose makes the poison,” was the advice of Paracelsus, one of medicine's most famous practitioners. In other words, anything powerful enough to help also has the power to harm. It is a rule which applies equally to prescription drugs, and to government regulation of drugmakers. America has, in recent years, been a far friendlier place for drug firms than Europe, with its penny-pinching price controls, restrictions on direct-to-consumer advertising and other curbs on the market in medicines. But now American politicians, from state capitals to Capitol Hill, are clamouring for more control over drugs—especially when it comes to safety and pricing.

Last month, yet another new product—Tysabri for multiple sclerosis—fell by the wayside. And in September, Merck withdrew Vioxx, its new anti-inflammatory medicine, because of potentially lethal cardiovascular complications. This event prompted a heated debate over the value, not just of Vioxx and its COX-2 inhibitor cousins, but of America's drug-regulatory system as a whole.

These developments, and growing arguments about the price of drugs, have tarnished the image of the industry (see article). A poll last month by the Kaiser Family Foundation found that 70% of Americans surveyed think that drug firms put profits before people. On the other hand, the poll found that almost four-fifths of respondents remain confident in the ability of the Food and Drug Administration (FDA), the industry's primary regulator, to ensure that prescription drugs are safe. The challenge now lies in keeping this faith.

## Strong medicine

The recent outbreak of drug withdrawals is not the first, and will not be the last, as medical science grapples with complex diseases in more complex ways. Tools are emerging that will help detect and reduce some of these risks. But to pick up every side-effect of a new drug before it is

allowed on to the market would require huge and protracted clinical trials. This would not only delay potentially useful therapies, to the detriment of patients whom no other treatment can help, but would also increase the costs of drug development to a point where drugmakers shy away from projects unless they are guaranteed top dollar for the new product—far from a sure thing in today's cost-conscious health-care climate.

Bringing a drug to market, and keeping it there, depends on striking the right balance between risk and benefit. America urgently needs better ways to continue assessing this balance once prescription drugs have been approved by the FDA. The creation of a new safety board within the agency, announced last month, could be a step forward, provided it has enough power to monitor, and control, prescription drugs once on the market. To do its job properly, such a safety board needs more and better information about the effects of drugs in real-life medicine. This means, for example, stronger incentives for doctors to report side-effects they encounter in routine practice. The FDA also needs more leverage—and possibly new legislation—to deal with drug firms in regard to post-marketing studies, labelling, advertising and withdrawals.

But this greater focus on risk needs to be balanced by a clearer view of benefits. Various efforts are under way in America to assess the cost-effectiveness of medical treatments—and prescription drugs in particular. Other countries do this already. Such assessments are a step in the right direction, especially since the information they generate could usefully inform America's current debate over drug pricing. At the moment, much of the negotiation between those who make and those who pay for America's drugs comes down to price—the lower, the better. What is needed is more systematic, rigorous and impartial assessment of the benefits of prescription medicines and a willingness to pay top dollar for those drugs which truly represent an advantage over existing treatments, and less for those that do not.

Stronger FDA enforcement of post-marketing studies and stronger signals from payers—especially the federal government, which will cover much of elderly America's drug bill from 2006—are needed to encourage drug firms to provide rigorous, unbiased evidence of the cost-effectiveness of their new products. This is something drug firms ought to welcome, despite short-term costs. In the long run, it is better for them, as well as for the public, to have pricing based on reliable evidence than on politicians currying popular favour. An industry which prides itself on science should surely welcome a more scientific approach to its own regulation.

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# Letters

Mar 17th 2005
From The Economist print edition

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## Summers's reign

SIR – As the number of female scientists employed at Harvard has gone down under Larry Summers's watch, the recent furor may be less about the lack of political correctness than about hypocrisy ("Summerstime, and the living ain't easy", February 26th). By attempting to shift the blame for the lack of women in science to outside forces (time demands, the structure of their brains), Mr Summers seems to be doing the same thing he routinely (and rightly) upbraids Harvard's lamer faculty for—resorting to half-baked excuses for institutional failings rather than admit to any responsibility for them.

Rob Luke
Edwardsville, Illinois

SIR – Your sweeping defence of Mr Summers misses the point. His ill-formulated remarks (about the possible causes of gender inequities among leading scientists) triggered long-simmering resentments about his impulsive and often hurtful conduct as the leader of an institution that, while scarcely flawless, has embodied high standards and worked harmoniously over the years. Unless one has dictatorial powers, one cannot change an institution by fiat, sheer will, or intimidation. And unless Mr Summers can somehow reinstate collegiality, trust and a civil tone on campus he will not achieve his goals, many of which have considerable support within the community.

Howard Gardner
Harvard Graduate School of Education
Cambridge, Massachusetts

SIR – Mr Summers is not a researcher musing about gender inequalities in a contest against ignorance. Rather, he is the chief administrator of a venerable institution; an institution where the yawning gap between the number of female students enrolled and the number of female faculty tenured has widened under his leadership. With power comes a responsibility to measure one's words, research one's comments and consider the repercussions of one's actions. There is much to be debated about the quality of the data Mr Summers cited and the inherent logic of his remarks. If President Summers prefers to entertain such provocative theories, a demotion to a professorship, where such inquiries are indeed encouraged, might be appropriate.

Rita Jordan
San Diego, California

## Who are you?

SIR – From the viewpoint of individual victims, identity theft is not theft but defamation ("What's in a name?", March 5th). A forged signature is null and void, so if a bank carelessly pays a forged cheque drawn on my account then that is their problem, not mine. But two things have changed with electronic banking. First, banks now use contract terms to shift the onus of proof to the customer when there is a dispute. Second, credit agencies pass on derogatory information about defrauded account holders, long after they know that the account holder is the victim rather than the perpetrator. The remedy is to enforce existing law and restore the incentives for banks to properly authenticate their customers.

Ross Anderson
Cambridge, Cambridgeshire

## Investing in China

SIR – Your discussion of China's stockmarket failed to penetrate that market's considerable opacity ("A marginalised market", February 26th). While retail investors are indeed disgruntled they probably number only a fraction of the 70m figure you cite; the differential is represented by bogus accounts which have been used by insiders to ramp the market.

You also note the conflicted role of the government in the market, but overlook the plethora of local governments and government ministries—each with its own agenda and its own corporate proxies—that has crowded the playing field as players and referees. Indeed, the failure in 2001 to resolve the state-owned (non-tradable) share problem is better attributed to this confusion of profit taking and policymaking than to raw greed.

William Holmes
Cambridge, Massachusetts

## Falling flat on the flat tax

SIR – I do not share Charlemagne's enthusiasm for the flat tax (March 5th). Such a tax would tax all income, earned or unearned, honest or dishonest, with no corporate or personal exemptions, no oil-depletion allowances or other corporate-tax breaks or loopholes, no deductions for mortgage interest or state sales taxes, no deductions of any kind. Moreover, a true flat-rate tax will never become law in the United States. More likely, a partial flat tax (with the usual innumerable exemptions) would be legislated for that merely continues to pass the tax burden on to salaried workers. The flat tax is not a good idea whose time has come; it's a lousy idea whose time is past.

Barney Kirchhoff
Paris

SIR – It is no accident that most of the countries pursuing a flat-tax policy also have high corruption, oversized black markets and low tax-revenues. In these countries, the flat tax is designed to tax previously unregistered income and advocates of a flat tax differ from those in the West on a crucial point: they want the rich to pay no less than the average person, not, as you assume, no more.

Peter Bohren
Amsterdam

## Valuing property

SIR – Your buy-or-rent analysis omits two important factors ("Still want to buy?", March 5th). First, the asymmetrical risk of not buying: if prices rise more than predicted, you miss the boat and can no longer afford a similar property. Second, the temptation to spend the money saved from renting instead of buying. Having to make the monthly mortgage payment on a gradually appreciating asset is great self-discipline in this era of instant gratification.

Joseph Palley
London

SIR – My wife and I are facing the question of whether to buy or continue renting. One thing is sure—money saved by renting is more likely to go towards new shoes than shares.

HOWARD BRUNNER
New York

## Universal soldiers

SIR – It was not always the case that in the armies of ancient Greece homosexuals were sent to fight in separate units ("Gay Warriors", February 26th). According to Plutarch's "Life of Pelopidas", the Thebans maintained an elite corps known as the "sacred band". This was composed of a homosexual army of "lovers" that were said to fight more bravely than other soldiers. Because they loved each other, they would not abandon their companion in combat nor do anything cowardly that would dishonour them in the view of their lover. Plutarch gave several examples of heroic actions by homosexuals. Maybe Donald Rumsfeld should take note?

Michel Waelbroeck
Brussels

SIR – You refer to homosexual legions in the pagan armies of ancient Greece to argue for the inclusion of gays in the American military. Should we also revert back to crucifixion, like the ancient Romans?

Jim Chase
North Pole, Alaska

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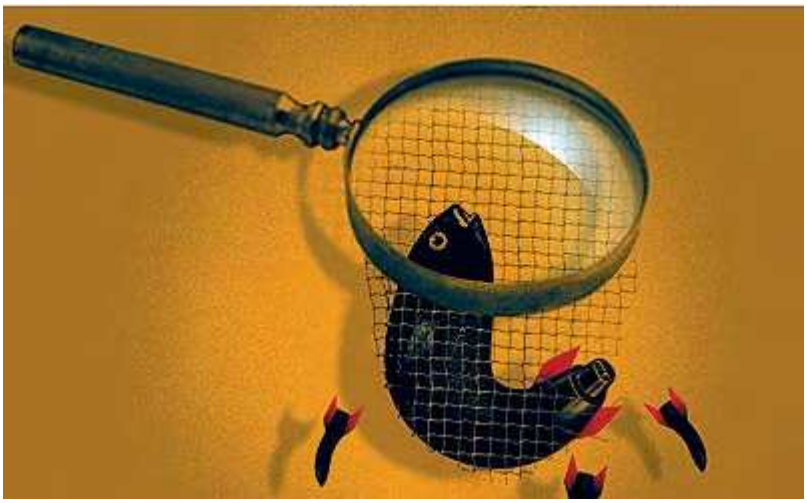
America's intelligence reforms

# Can spies be made better?

Mar 17th 2005 | WASHINGTON, DC
From The Economist print edition



**In the wake of recent shocks, intelligence-gathering is being reformed on both sides of the Atlantic. The task is daunting. We begin in America**

Get article background

"WE TEND to meet any new situation in life by reorganising," Petronius Arbiter, a 1st-century Roman satirist, is supposed to have remarked. "And what a wonderful method it can be for creating the illusion of progress while producing confusion, inefficiency and demoralisation." Wonderful, indeed, for John Negroponte, America's ambassador to Iraq, who will leave Baghdad this month to become America's first director of national intelligence (DNI). Mr Negroponte may come to question which job is the more harrowing. On one side, murder and mayhem; on the other, mayhem and mystery.

The creation of the DNI was a well publicised reform, approved by both Republicans and Democrats, which was intended to improve the performance of America's intelligence agencies in the wake of the terrorist attacks of September 11th 2001. But precisely what power it will confer on Mr Negroponte is, as yet, unknown. So too is what power he will subtract from others within the 15 arcane agencies he will direct. The Central Intelligence Agency (CIA), the best known, accounts for only about a tenth of the intelligence budget; the biggest of all, the National Security Agency (NSA), with 30,000 employees, resides in the Department of Defence (DOD) under the pugnacious Donald Rumsfeld. As Mr Negroponte turns his thoughts away from bombs and gunfire inside the green zone, he may hear a rattle of daggers being drawn in Washington, Arlington and Langley.

America's secret world is inefficient and demoralised, and has been for some time. The CIA in particular is an unreformed, substantially unaccountable bureaucracy, which has almost never sacked anyone, which appears deluded by its own mythology and which, despite some notable

successes, is burdened by a miserable run of failures. The entrance-hall at Langley is decorated with a black star for every CIA officer killed fighting the cold war. A more telling record, according to several former spooks, is that the agency in those years did not recruit a single mid-level or high-level Soviet agent. Every significant CIA informant was a volunteer. And the agency was comprehensively infiltrated. At one point, every CIA case-officer working on Cuba was a double agent. All but three CIA officers working on East Germany allegedly worked for the *Stasi*. As for those brave volunteer agents, Aldrich Ames, a greedy drunkard in the CIA directorate of operations who was bought by the Russians, put paid to many—as did another mole, Robert Hanssen, in the FBI.

When it comes to recruitment and filing intelligence from the field, quantity has often mattered most. In cold-war Africa, American spooks allegedly paid for the same information obtained for nothing by American diplomats over lunch. One recent case-officer, Lindsay Moran, says she was aware that an agent she was running in the Balkans was peddling worthless information, but she was repeatedly refused permission to end the contact. “It gets depressing,” she said. “You start to wonder whether we can do anything good at all.”

More recent events have brought shame on the intelligence agencies as a whole. They failed to predict both the Soviet invasion of Afghanistan in 1979 and the Soviet Union's break-up a decade later. In 1998, America's spies were taken by surprise when India tested a nuclear bomb; they then advised Bill Clinton to flatten one of Sudan's few medicine factories, wrongly believing that it made nerve gas. The next year, on the agencies' mistaken advice, an American warplane bombed China's embassy in Belgrade.

The two main prompts to reform, however, have been the September 11th attacks, in which some 3,000 Americans died, and the spooks' hallucinations about Iraq's weapons programmes, which were used to justify a war and bloody peace that have cost tens of thousands of lives. The fallout from Iraq—especially a report by the Senate Intelligence Committee last year, which accused the agencies of “a lack of information-sharing, poor management, and inadequate intelligence collection”—forced George Tenet, the CIA's second-longest-serving boss, to resign in June.

## Porter Goss's burdens

Under Mr Tenet's successor, Porter Goss, a former Republican congressman and spy, a dozen senior spooks have been sacked and two dozen have quit in fury. Mr Goss's aides—most of whom have had no previous experience of intelligence work—are said to be thuggish managers. Mr Goss is meanwhile finding his job tough. On March 2nd, he said he was “a little amazed at the workload”, which was “too much for this mortal”. Merely preparing the president's daily intelligence briefing takes him five hours.

It was partly to ease this burden that the DNI was created, in a package of reforms passed in December. These were broadly in line with recommendations made by the bipartisan 9/11 Commission, whose vivid report into the attacks was a deserved, if unlikely, bestseller last year. (The recommendations were not informed by the foul-up on Iraq; a presidential commission into the pre-war Iraq intelligence is due to report later this month.)

The DNI will be charged with co-ordinating all the secret agencies, a job which the CIA's chief—as the director of central intelligence—has performed only in theory hitherto. The DNI will thus be held accountable for the performance of each agency. Alongside a new multi-agency National Counterterrorism Centre (NCTC)—which will have wider powers than its existing equivalent, and may be the prototype for more specialist centres, focused on China and proliferation issues—the DNI represents the biggest organisational change to America's spy world since 1947.

The 9/11 Commission's report told mostly the story of the months and moments leading up to the attacks, with many details of the agencies' bungling. The CIA noticed that two known terrorists had obtained American visas, but failed to inform the Federal Bureau of Investigation (FBI), which is responsible for domestic counter-terrorism. Notoriously, certain FBI bosses failed to pick up on a report that a group of Arab men was learning to fly planes, but not to land them. Overall, the commissioners diagnosed a grave reluctance to share information within and among the agencies. Most seriously, they found that the FBI's two main departments, responsible for intelligence and criminal investigations, barely communicated. In part, they were deterred by laws safeguarding Americans from government meddling, though the reach of these laws was often exaggerated.

More generally, the commission observed a “failure of imagination” in the agencies' response to the warning signs they did observe. A CIA report filed in 1998 had warned that al-Qaeda might carry out suicide attacks with hijacked planes; but the report's authors later said they could barely remember having included the detail. The problems were only partly organisational. Indeed, the commission noted that, when tipped off that al-Qaeda was planning a range of horrific attacks to mark the end of the last millennium, the agencies performed well; a number of bomb attacks on embassies in the Middle East were averted.

The commission proposed that a DNI, crudely analogous to the head of the armed forces, the chairman of the joint chiefs of staff, should be hired to oversee all the agencies and correct what had gone wrong. To lend weight to his admonishments, the DNI was to be given charge of the agencies' combined $40 billion budget, though most of that is controlled by the Pentagon. The DNI would be just what the agencies had not been: vigilant, imaginative and single-minded.

## Devilment in the details

Nobody really disputes the idea that America's intelligence system, which was designed in 1947, was out of date, disorganised and had no recognisable chief. Its 15 squabbling baronies, which were set up to deal with conventional enemies, display precious little cohesion (with the Pentagon particularly protective of the agencies it controls). It was thus not surprising that the 9/11 commissioners fastened on the idea of appointing an overall chief to bring the muddle together. The question is whether this new job, without any other structural reform, can actually improve the system.

By the time the commission delivered its recommendations, some of the more useful ones were almost three years out of date. The commission's period under investigation ended on September 11th 2001; the commission's report was delivered 34 months later. In the intervening time, the war on terror was launched and changes were made. First, under the Patriot Act, many of the inter-agency firewalls protecting Americans' civil liberties were broken down. FBI and other agents were obliged to share intelligence on terrorists within and among the agencies. The director of the FBI, Robert Mueller, was required to attend the president's daily intelligence briefing, given by the director of central intelligence (DCI).

Huge resources were shifted to counter-terrorism. In January 2003, a multi-agency counter-terrorism think-tank, the Terrorist Threat Integration Centre, was formed inside the CIA's headquarters. The centre produces a daily briefing on terrorist threats and counter-terrorism operations, which the president hears after the DCI's.

When the 9/11 Commission added its own recommendations to the pile, they were accepted rapidly. John Kerry, the Democratic presidential candidate, endorsed the report almost before he could have read it. Bereaved relatives of the hijackers' victims rallied behind its recommendations. Reluctantly, and to Mr Rumsfeld's great annoyance, Mr Bush endorsed it too.

To general surprise, Mr Bush after his re-election made good on that endorsement, signing into law the Intelligence Reform and Terrorism Prevention Act. It was modelled on the commission's recommendations, with a few modifications insisted on by pals of Mr Rumsfeld. For example, in keeping with the commission's demands, the act authorises the DNI to “design and deliver” a unified intelligence budget. But it also says that the authority of the cabinet secretaries should be upheld.

This has created confusion over who will, in fact, control the purse-strings. To extricate the defence intelligence budgets from the wider defence budget could take several years and a staff of several hundred experts. It might not even be desirable. America's generals almost always get first dibs on the intelligence assets, such as spy satellites, that they share with civilian agencies, and in wartime they always do. The law similarly gives the DNI control over the agencies' personnel, but here too there is devilment in the detail: in practice, the DNI can veto the appointment of some second-tier officials, but he will not be able to sack agency chiefs.

To shore up the DNI's putative powers, Mr Bush has suggested that Mr Negroponte, not Mr Goss, will deliver his morning intelligence briefing. In theory, this should allow Mr Goss to concentrate on managing the CIA. In practice, the briefing is likely still to be prepared by the CIA and Mr Goss will still be required to attend the meetings, with Mr Negroponte appearing as an over-qualified court herald. Alternatively, he too could spend half his working day drafting the briefing. He will exert even less control over what goes into the counter-terrorism briefing that follows it, because although the DNI will be in overall charge of the NCTC, the agency chiefs retain control of their operations. Yet Mr Negroponte is to be held accountable for their mistakes.

These uncertainties have fuelled a noisy and ill-tempered debate about the reforms in a country whose spies have traditionally excited fierce passions, and where national security is a national obsession. Left-wingers loathe the CIA, in particular, for its cold-war habit of plotting to murder left-wing leaders, including Patrice Lumumba of Congo and Fidel Castro of Cuba. On the right, the CIA is often considered a nest of liberals, bureaucratic and broken beyond repair, whose salvageable assets should be handed over to the Pentagon. Some hawks justify the policy of pre-emption on the ground that the agencies cannot be trusted to give warning of imminent threats. And, of course, moderate opponents of all the above tend to take the opposite view.

## A cornucopia of incompetence

Such passions lie behind the unerring certainty with which America's politicians and pundits speak of a world that remains, after all, secret. For many right-wingers, the DNI office will prove disastrous, adding an unwanted layer of bureaucracy to an already constipated system. At worst, it will go the way of the Office of Homeland Security, which was created after the September 11th attacks with a mandate to co-ordinate agencies such as customs and the coast guard, but which has since proved toothless and wasteful. Others note the few factors in Mr Negroponte's favour. His chosen deputy, Lieut-General Michael Hayden, is a well-respected former head of the NSA. Above all, Mr Negroponte will have daily access to a president who holds him in high regard.

The truth is, no one knows how the reforms will proceed. Mr Negroponte may gain a modicum of control over the agencies. At best, he may ensure that the information channels opened within and between the agencies after the hijack attacks stay open. Yet, on his own at least, he will not be able to fix the agencies' most grievous problems, highlighted by their performance on Iraq.

Last year's Senate report into the Iraq debacle found America's spies—and especially the CIA—negligent and incompetent at every stage of the intelligence-collection and analysis process. The CIA had not a single agent in Iraq after the UN's weapons inspectors were expelled in 1998. They had no fresh intelligence to claim, as they did, that Iraq had chemical and biological weapons.

Their claim that Iraq was “reconstituting its nuclear programme” was based on the country's import of some aluminium tubes that could have been used for other purposes, and was fiercely contested by most experts across the agencies. They did not, at least, suggest that Iraq was in cahoots with al-Qaeda, although members of the government, notably Dick Cheney, the vice-president, did so often.

The key to the agencies' misapprehensions, the committee found, was a predilection to “group-think”. In other words, they failed to re-examine received truths—for example, the historical fact that Iraq had prohibited weapons. This was made manifest in numerous ways. The CIA's analysis was seldom double-checked; detection of dual-purpose materials, that might possibly be used in weapon programmes, was routinely taken as proof that such programmes existed; and ambiguous scraps of intelligence were compiled to reach an unambiguous conclusion, a process known as “layering”. These problems, said the report, stemmed “from a broken corporate culture and poor management, and will not be solved by additional funding and personnel.”

The spies' friends (and Mr Bush's enemies) rebut this. On chemical and biological weapons, they say, the agencies were not all that wrong—the report acknowledged that Iraq had retained the technology to rebuild its stockpiles—and, moreover, no other western intelligence service thought differently. On Iraq's nuclear programme, they say, the government was to blame: under intense pressure to provide the case for a war that Mr Bush had already decided to fight, doubters were muffled and caveats were cut.

Another defence is that intelligence, whether human or, far more commonly, electronic, rarely yields the smoking-gun proofs that policymakers may wish for. It is an accumulation of indicators, contradictory and unreliable, which intelligence analysts turn into an estimation of a hidden reality—or, even more precariously, use to predict the future. Intelligence is inherently faulty. True: but why then did Mr Tenet—in a phrase quoted by Bob Woodward, which Mr Tenet has not disputed—describe the case for Iraq having banned weapons as “a slam-dunk”?

## Mr Negroponte's uses

Despite all the recommendations, the rot may be hard to stop. After a decade of cuts—the CIA's budget was chopped by 23% under Bill Clinton—the agencies are indeed getting more money and more spies. This year, the CIA will graduate its biggest-ever class of case-officers. With only around 1,200 stationed overseas, more case-officers are needed, but only if they are properly equipped for the latest challenges. Around half of all the CIA's case-officers are in Baghdad. But with only a handful of them fluent in Arabic, they are mostly confined to the green zone, condemned to interview Iraqi interpreters and watch endless episodes of “Sex and the City” on DVD.

Further organisational reform would not eliminate the problem. America's spies do not necessarily need shifting; a good few need sacking. Mr Negroponte is in too lofty and exposed a seat to manage such a programme. But if he can shoulder some of the DCI's more onerous duties, including the president's briefing and the intelligence budget, he might free a dynamic CIA director to wield the axe for him. There is no time to waste. In a precarious world, the full range of American intelligence and intelligence-gathering on, for example, China's military build-up and Iran's nuclear ambitions needs urgent re-evaluating. But that dynamic director may not be Mr Goss, who sounds awfully tired.

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Economist.com SPECIAL

Britain's intelligence services

# Cats' eyes in the dark

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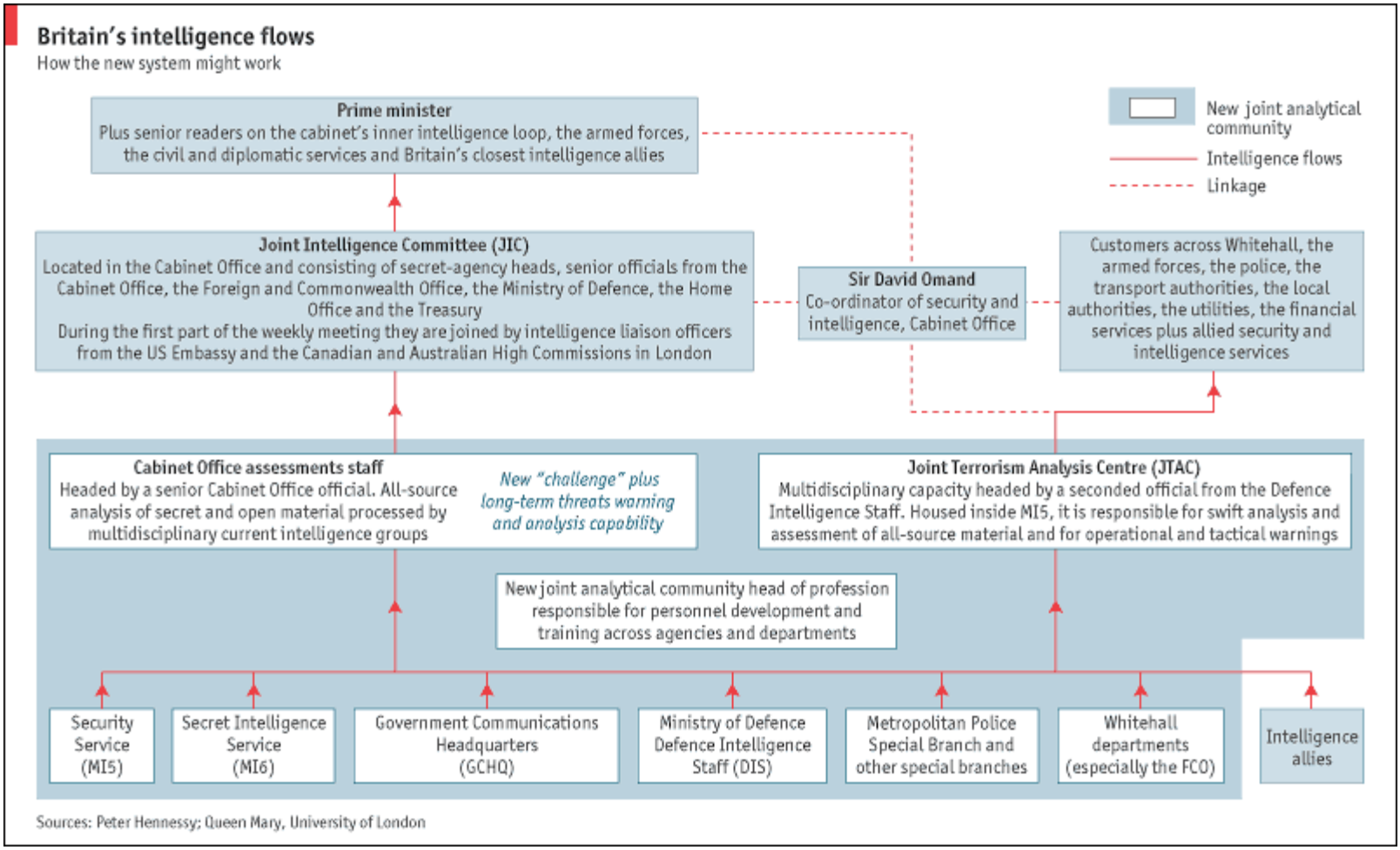
From The Economist print edition

**Can challenging and questioning be made a part of the spy culture?**


Britain's intelligence flows
How the new system might work
Prime minister
Plus senior readers on the cabinet's inner intelligence loop, the armed forces, the civil and diplomatic services and Britain's closest intelligence allies
New joint analytical community
Intelligence flows
Linkage
Joint Intelligence Committee (JIC)
Located in the Cabinet Office and consisting of secret-agency heads, senior officials from the Cabinet Office, the Foreign and Commonwealth Office, the Ministry of Defence, the Home Office and the Treasury
During the first part of the weekly meeting they are joined by intelligence liaison officers from the US Embassy and the Canadian and Australian High Commissions in London
Sir David Omand
Co-ordinator of security and intelligence, Cabinet Office
Customers across Whitehall, the armed forces, the police, the transport authorities, the local authorities, the utilities, the financial services plus allied security and intelligence services
Cabinet Office assessments staff
Headed by a senior Cabinet Office official. All-source analysis of secret and open material processed by multidisciplinary current intelligence groups
New "challenge" plus long-term threats warning and analysis capability
Joint Terrorism Analysis Centre (JTAC)
Multidisciplinary capacity headed by a seconded official from the Defence Intelligence Staff. Housed inside MI5, it is responsible for swift analysis and assessment of all-source material and for operational and tactical warnings
New joint analytical community head of profession responsible for personnel development and training across agencies and departments
Security Service (MI5)
Secret Intelligence Service (MI6)
Government Communications Headquarters (GCHQ)
Ministry of Defence Defence Intelligence Staff (DIS)
Metropolitan Police Special Branch and other special branches
Whitehall departments (especially the FCO)
Intelligence allies
Sources: Peter Hennessy; Queen Mary, University of London

AS THAT shrewd spy-chronicler, John le Carré, noted once, secret services can be most revealing of the deeper character of the countries they protect. A distinguished British practitioner of the craft recently agreed with him, declaring that intelligence work "is the last expression of national identity and sovereignty".

Britain is perhaps the prime example. Its secret servants of the state remain tiny in numbers and budgets compared with the United States. The so-called single intelligence account disbursed by the Treasury is £1.3 billion ($2.5 billion). The American government spends roughly five times as much on the bits that are its equivalent of the three British agencies: the Secret Intelligence Service (MI6); the domestic Security Service (MI5) and the Government Communications

Headquarters (GCHQ). And American help is vital. A baffled Edward Heath, when he was prime minister in 1970-74, once asked what Britain was getting in return for making all kinds of facilities available to the Americans. The answer came back that, without the intelligence provided by America, Britain would be instantly reduced to “the same position as other European members of NATO”—in other words, to the second rank of world intelligence powers.

But Britain's spy agencies preserve a certain cachet. Some of this, oddly enough, comes from James Bond films, by which the doings of a wildly fictionalised MI6 agent have seized the world's imagination. Old MI6 hands do not knock Mr Bond; he helps reduce that gap in spending power between the Brits and the Americans. CIA veterans acknowledge that, where they may need a brown envelope stuffed with dollars, an officer from MI6 can sometimes rely on brand image alone. A former “C” (as MI6 chiefs are traditionally known) has claimed that, after long and careful cultivation of a potential agent, when one of his officers made the final pass, his subject would often “virtually stand to attention, such was the honour”.

Yet, for all the swash and buckle, Britain's intelligence services have been feeling their limitations lately. Two events, above all, have forced a rethink in the way things are done—and have led to the most substantial reshaping of the intelligence community since 1946-48, when Stalin was ensconced in Moscow and when MI6 did not officially exist.

Ever since the terrorist attacks of September 11th 2001, as a seasoned operator put it, “the community has come together because abroad has come home”. Terrorist-related intelligence gathered in a hard and remote area, or by surveillance of a single individual with a particular suitcase in a European hotel room, now has to be passed to the Joint Terrorism Analysis Centre (JTAC) beside the Thames, assessed and put on several desks in Whitehall (including, very often, the home secretary's) sometimes within minutes, rather than hours, of its gathering. The secret part of Britain's new “protective state” knows it is pitted now against a threat with no geography, whose consequences (as in Parliament's recent bitter debate on anti-terrorist legislation) often play directly into the political issues of the hour. The nature, provenance, analysis and use of intelligence have never before had such a central or prominent place in British politics.

Iraq provided its own extra jolt to the system. Britain's intelligence services, like America's, took an enormous hit when Iraq's expected remaining stock of weapons of mass destruction failed to materialise. They, and the politicians they were advising, seemed to have forgotten the wise remark of Sir Colin McColl, a former chief of MI6, that the most intelligence can provide is “cats' eyes in the dark”. But that sense of spying's limitations vividly coloured Lord Butler's report, last summer, on WMD, intelligence and Iraq, and has not left the minds of the queen's secret servants since. The failure in Iraq was ever-present in the minds of the Butler implementation group chaired by Sir David Omand, the co-ordinator of security and intelligence, whose report has recently gone before the small group of ministers on Tony Blair's Cabinet Committee on Security and Intelligence.

There is no trace, in this report, of a purge mentality driven by politicians or committees seeking to name and shame the “guilty”. The Britishreview has been pushed by the very intelligence figures who were in the frame of the Butler report. It recommends:

• Full acceptance of the Butler criticisms, especially the need to keep testing key pieces of intelligence—and the assumptions shaping their interpretation—before they are included in assessments sent to ministers and customers in the civil and diplomatic services and the armed forces. And the testing should be more rigorous than it was before the war in Iraq.

• To help achieve this, the Cabinet Office's 30-strong assessment staff will grow by about a third. It will also develop a separate team to challenge assessments, precisely to diminish the risk of “group think” which worried Lord Butler, and to improve longer-term thinking about possible

future threats.

• Intelligence analysts, whether in the secret agencies, in the Foreign and Commonwealth Office or at the Ministry of Defence, will become part of a new joint analytical community with its own head of profession and shared training facilities.

All in all, the new post-Butler system is intended to give the technical specialists more weight, to engender greater scepticism (including among ministers) about the material gathered, and to licence every member of the British intelligence community, when necessary, to speak truth to power. That, at least, is the hope.

Can the post-September 11th changes and the prescriptions of the Omand report, taken together, achieve what needs to be done? Necessary reforms include ensuring that future politico-military policy does not place a weight upon intelligence that it cannot bear. They must try to draw maximum value from the existing intelligence community, and create a wider picture of current threats from the mosaic of tactical intelligence. They must carve out time and space to consider what some intelligence officers (borrowing the phrase of a French historian, Fernand Braudel) like to call “the thin wisps of tomorrow”, from which future anxieties may arise.

They also need to protect secrets in circumstances where, within minutes, terrorist-related intelligence has to be both shared with allies and transmitted down the line to the British Transport Police or to traffic wardens in the centre of London. And they have to improve communication with Parliament, press and the public about immediate threats, intelligence capabilities and future anxieties in a world where it is no longer possible or satisfactory to say, simply, “Trust us”.

## A licence to be awkward

The first “never again” reform was in place within six months of Lord Butler's team reporting. MI6 restored a separate requirements department after a decade or so in which, for economy reasons, that activity had been blended with operational groups. The new head of what is known colloquially as the “R” function has a licence to be awkward, and is given seniority and independence.

His sizeable team is a mixture of seasoned analysts and officers with recent experience in the field. They have almost completed the considerable task of going back and re-evaluating all M16's significant networks, not just those connected with Iraq, and applying new standards of rigour. So far, the networks have survived.

The Cabinet Office, for its part, will shortly be appointing a challenger-in-chief to work within the assessments staff to test material at the final stage of processing before it reaches the “high table” of British intelligence, the Joint Intelligence Committee (JIC). The challenge section will also probe existing assumptions, to check that new material is not fitting in too comfortably and readily. As part of the post-Butler guidance, ministers, too, are being asked to raise their game in terms of the scepticism and care with which they approach the “CX” reports (the code indicates it is MI6-generated, and is short for “from ‘C' exclusively”), the JIC's assessments and the whole sheaf-full of intelligence and security material they receive daily and weekly.

Perhaps the most significant attempt to maximise the use of intelligence resources took place before the Iraq war, with the creation of the Joint Terrorism Analysis Centre. After the September 11th attacks, the Security Service, MI5,createdits own Counter-Terrorism Analysis Centre, CTAC. But in the summer of 2002, realising something more substantial was needed, it suggested relinquishing some of its traditional turf to create the JTAC. The centre began work on May 1st

2003 and, by the end of that year, was up to its full complement of 100 officials drawn from a range of agencies, departments and the armed forces. In its first year of life, it analysed and assessed some 60,000 items of intelligence.

Roughly speaking, the JTAC now concentrates on what al-Qaeda and its penumbral groups are doing, while the JIC works on the implications of this for the wider world. Advocates of the twin system argue that it frees the JIC to do more strategic thinking of the sort it did 40 or 50 years ago.

## Who should know, and how much?

The success and work-rate of the JTAC—and the understandable preoccupation of politicians, press and public with this aspect of Britain's intelligence output—have led some insiders to fear a growing “tyranny of the tactical”, with insufficient attention paid to the longer-term and deeper meaning of the flood of incoming material. Even before the Omand report, however, the JTAC was increasingly producing longer-term pieces. Now, too, as part of the assessments staff's new “challenge” section, a greater focus is developing on those “thin wisps of tomorrow”.

Every six months, the prime minister and the small number of ministers on his inner-intelligence loop will receive a “wisp list” of about ten items dealing with potential problems over the horizon up to ten years ahead, such as possible failed or failing states. The prime minister will then be asked if he would like more work done on them. The regular flow of assessments looking six months to a year ahead will not, it is hoped, be diminished, and Lord Butler's strictures about not mixing analysis with policy prescription will be, it is hoped, observed. The JIC's customers will be alerted if the committee's members have failed to reach the consensus for which they traditionally strive.

How much of the workings of the new secret state will reach Parliament, press and public? The oversight body, the Intelligence and Security Committee of parliamentarians, operates inside the Whitehall ring of secrecy and will be the chief quality-controller reporting to the prime minister (though Parliament will continue to get its ISC reports with the sensitive detail removed). “Dossiers”, of the kind that caused such trouble before and after the Iraq war, are unlikely to re-appear. On the rare occasions when they are used once more, the intelligence analysis will be ruthlessly and clearly kept separate from what ministers make of it or may want to do on the strength of it.

It was noticeable last month that the Home Office's background document to its immensely controversial Prevention of Terrorism Bill went out in the name of Charles Clarke, the home secretary, and did not directly quote intelligence material. The document confined itself to declaring that “Our understanding of the threat has advanced both from an increasing intelligence base and through the investigation of both successful and thwarted attacks.” An intelligence dossier was considered, but was rejected.

Expect more such background papers in future. Whitehall knows that, since Iraq, the threshold of intelligence and security credibility in Britain has been raised to a level probably higher than it has ever been. The detention, without trial, of foreign terrorist suspects in Belmarsh prison has served to keep it there. The problem of secret intelligence activity must always be acute in any open society worthy of its name. Trust depends on clandestine methods being confined to those aspects of domestic or international risk where only secret sources can penetrate to expose, and prevent, potential catastrophe.

Much secret intelligence, however, will need to be kept secret. Insiders, especially the old guard, worry a good deal about this. Theirs is traditionally a world of shadows, far removed from

oversight, dossiers and inquiries such as Lord Butler's, which quoted chunks of intelligence material and even revealed (to the horror of many officers) the precise number of agents MI6 had been running in Saddam Hussein's Iraq. Occasionally, you hear a cry for a tough new Official Secrets Act to run alongside the Freedom of Information Act (from which all three secret agencies are exempt), to improve the chances of genuinely sensitive material remaining safe.

These days, JTAC's findings can pass within minutes—via the Police International Counter Terrorism Unit, which sits alongside it in MI5's headquarters—to the hands of an ordinary officer in a police patrol car. Yet it is still, in intelligence terms, “safe”. So-called “tear-line” procedures mean it carries no hint of the secret sources and methods by which it has been derived. The same applies to material pooled with those overseas secret services (beyond the old America/Canada/Australia loop) with whom the British agencies have operational links. But there will be no other deeply multilateral arrangements. You will not, for example, find a single serious advocate of a European Union security and intelligence service inside the British agencies. Such relations can flourish only after years of trust-building.

## No end of a lesson

Will the new system work? Insiders certainly hope so. Turf fights and unnecessary demarcations are much diminished, though they have not vanished. The idea of merging MI6 and MI5 into a single security and intelligence service, which was briefly considered in the decade between the collapse of the Soviet Union and the attack on the twin towers, is no longer a runner; the certain disruption such a move would cause far outweighs the speculative gains. The new joint analytical community will encourage co-operation, though it will take some bedding in.

An IT programme, known as SCOPE, is due to be fully installed by the end of 2006. The idea is to link analysts and customers more swiftly, fully and effectively, while giving the expert a greater capacity to have his or her dissenting view heard, however inconvenient to those higher up the intelligence chain or unwelcome to its top ministerial consumers. The aspiration is there; but will the other ranks truly be convinced the officer class wants to hear? There are many different analytical traditions, too, within the agencies and across the departments. Sending them all for training to the Defence Intelligence Staff's centre at Chicksands in Bedfordshire may be neither possible nor genuinely effective in creating an analytical community.

The twin shocks of September 11th and Iraq have provided, as Rudyard Kipling said of the Boer war, “no end of a lesson”. But will the learning continue if Britain suffers no terrorist outrage in the next few years? Much will depend on the successors to Sir David Omand (who retires next month, to be replaced by the Home Office's Bill Jeffrey) and the current chairman of the JIC, William Ehrman, as well as the yet-to-be-appointed head of the analytical profession.

A catastrophic event would place great strain on the new arrangements and produce instant pressure for yet another rethink. Parliament might press for a free-standing select committee of the House of Commons to replace the existing Intelligence and Security Committee of MPs and peers. The press, even without a terrorist outrage to trigger a hunt for the culpable in Whitehall and the secret services, will be pressing for greater transparency and accountability. Even if a trauma is prevented, media scepticism of the intelligence feed into policy is unlikely to diminish. And the more skilful journalists and scholarly researchers will find ways of using the Freedom of Information Act to prise material from the Cabinet Office and the Defence Intelligence Staff, which are not exempt from the statute's reach.

New methods of recruitment and training may matter a great deal. MI6, for example, has been working much more closely with the armed forces recently. Its operators in Afghanistan or Iraq have, in some ways, more in common with the behind-the-lines Special Operations Executive

(which MI6 absorbed in 1946) than with the crypto-diplomatic spies of old. Such conditions are likely to persist, and a new breed of British intelligence officer could develop to match new requirements.

If there is one theme that links all the systemic and human changes in Britain's secret world—and applies to all levels, from the MI6 agent in the field to the most senior reader in 10 Downing Street—it was articulated by Lord Butler. “Intelligence”, he said last month during a discussion on the purposes of the business, “is not uniquely worthy of belief. Intelligence is uniquely worthy of scepticism.” That, decorated by cats' eyes in the dark, should be emblazoned on the banner of the reformed British intelligence community.

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Economic policy

# Not exactly major league

Mar 17th 2005 | WASHINGTON, DC
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**George Bush's economic team still looks weak**

Get article background

BY MOST measures, the president has quite an ambitious economic agenda for his second term. George Bush's goals include overhauling the tax code, reforming the Social Security system, halving the budget deficit and pushing through more trade agreements. But who exactly is meant to do all this stuff?

In theory, Mr Bush's economic team is headed by John Snow. The president was on the point of sacking his treasury secretary at the end of last year; he then pulled back—but only apparently to keep Mr Snow as a travelling salesman for his pension-reform scheme. The former railroad boss has recently visited such well-known global financial centres as San Antonio, Albuquerque and New Orleans.

The Treasury itself seems short of both staff and clout with the administration. That might be excusable if economic policy were being steered by a professional team in the White House; but it too is short of economists, particularly ones that are close to Mr Bush. The head of the National Economic Council, Allan Hubbard, is an old friend of the president, but he is an Indiana businessman, not an economic-policy man. The same applies to the deputy chief of staff in charge of economic policy: Karl Rove may be a political genius but he is not known for his grasp of the niceties of fiscal policy.

This week, Mr Bush finally nominated a new trade representative to replace Robert Zoellick, who has been moved to the State Department. Rob Portman, a respected Republican congressman, will be a good salesman for Mr Bush's trade agenda in Congress; it is less clear how good he will be at

negotiating international trade deals. Mr Bush also nominated Paul Wolfowitz to head the World Bank; moving the arch neoconservative from the Pentagon may yet prove an enlightened choice, but it is hard to justify it in terms of economic nous.

Mr Bush clearly prefers businessmen and true believers to academics and Wall Street types. It is hard to claim that economists guarantee success: witness for instance the Clintons' economist-packed health-care plan. All the same, Mr Bush is plainly chancing it—especially if an economic crisis of some sort were to happen.

Take for instance, the Treasury. In the Clinton administration, particularly under the leadership of Robert Rubin and then Larry Summers, the Treasury dominated other departments. Now it is one of the weaker ones. Mr Bush's first treasury secretary, Paul O' Neill, understood economic policy; but he was too much of a maverick to be popular with either his master or the markets. Mr Snow is a steadier sort, but he has little input in setting policy.

Around a third of the Treasury's main jobs are either unfilled or taken by acting appointees. It looks particularly weak on tax policy. Once Mr Bush's tax commission comes up with its suggestions for reform, it is not clear who will turn them into clear legislative proposals.

In the first term, Mr Bush relied fairly heavily on the chairman of his Council of Economic Advisers, Glenn Hubbard (no relation of Allan). He gave up the job in 2003. His successor, another first-rate economist, Greg Mankiw, was frozen out after he made accurate if politically unfortunate comments about the benefits of outsourcing.

Mr Mankiw's successor, at least for the next few months, is Harvey Rosen, an acknowledged public-finance expert, but not known to be close to Mr Bush. The real economic power in the White House lies with Allan Hubbard (who by all accounts is an effective co-ordinator) and Mr Rove.

## Loyal salesmen, not economists

There are two growing suspicions about Mr Bush's approach to economic policy. The first is that he sees it mainly as a question of salesmanship. Showing an admirable faith in markets, the president seems to think that economic policy will basically run itself; what you need is a bit of pizzazz to sell the president's reforms. Hence, the White House's enthusiasm for Carlos Gutierrez, the new commerce secretary, who made his fortune selling breakfast cereal at Kellogg.

The second suspicion is that loyalty is more important than knowledge. That was Mr O'Neill's problem: he said that more tax cuts were a bad idea. Larry Lindsey, Mr Bush's bumptious first chairman of the National Economic Council, was pushed out soon after he made the impolitic (but pretty accurate) point that the Iraq war could cost $200 billion.

Unfortunately, markets never work quite that sweetly. What would Mr Bush's team do if there was some sort of international economic crisis, such as a dollar crash? The main international person at the Treasury, John Taylor, has failed to make much of a mark. His replacement is likely to be Tim Adams, head of policy for the Bush-Cheney campaign and before that Mr Snow's chief-of-staff. In the White House, there are even fewer people who understand international economics.

In a crisis, Mr Bush would probably end up relying on two people. The first is Mr Zoellick who as well as having been the trade representative has also worked in the Treasury. The other, inevitably, is Alan Greenspan, the Fed chairman and the only policymaker in Washington with standing in the market.

Fred Bergsten of the Institute for International Economics points out that there would be a precedent for this. In the early 1980s, Ronald Reagan turned to Paul Volcker at the Federal Reserve and Jacques de Larosière at the International Monetary Fund to manage Mexico's debt crisis. The hitch is that the IMF is on rockier terms with Mr Bush; and its boss, Rodrigo Rato, lacks Mr de Larosière's stature.

In other words, it would all come down to Mr Greenspan. But the Fed chairman is due to step down early next year. There are three front runners to replace him: Glenn Hubbard, who is well regarded but still seen as a fiscal rather than monetary expert; Ben Bernanke, a former economics professor from Princeton and now a Fed governor; and Martin Feldstein, a fiscal expert from Harvard and head of the Council of Economic Advisers in the Reagan era.

None of these men has recent experience of dealing with financial crises. That was true of Mr Greenspan once too; he earned his spurs by coping with the 1987 stockmarket meltdown. But given the lack of strength within the administration, the risks now are surely higher. Mr Bush should be crossing his fingers that nothing goes wrong.

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Freedom of speech

# Harvard's disgrace

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**Its faculty have censured Larry Summers. They, not he, should be ashamed**

THIS week Harvard University's Faculty of Arts and Sciences took the unprecedented step of passing, by 218 votes to 185, a motion of no confidence in the university's president, Larry Summers. The professors then voted by a larger margin, 253-137, to criticise his management style. What did Mr Summers do to provoke this grave step—one that puts him under considerable moral pressure to resign? What he did not do, despite lazy reporting to the contrary, was ever say that women are not as good as men at science and maths.

In a talk at the National Bureau of Economic Research in January, he referred to three theories that might explain why women are under-represented in the highest reaches of maths and science: that they face discrimination and other forms of social pressure; that careers in so demanding a realm, calling for an 80-hours-a-week commitment, are less appealing on average to women than to men; and that the *variability* of aptitudes for science and maths differs between the sexes (leading you to expect that more men than women would be very bad at science, and more very good, regardless of the respective averages, a possibility for which there appears to be some evidence).

Admitting to be no expert in the field, he then speculated, as he had been invited to, about which factors matter most. He said he suspected that discrimination was relatively unimportant, and that the variability of aptitudes might matter a lot. (A transcript of his remarks is here.)

Whether Mr Summers is right or wrong in that judgment can hardly be the point, unless Harvard's professors propose to forbid false theories ever to be mentioned. To the non-paranoid, there was nothing disreputable or “sexist” about his comments. So the issue is whether it was right for Mr Summers to express an opinion which (though quite plausible) appears to be unpopular with the Faculty of Arts and Sciences. It beggars belief that a community of scholars, or people purporting to be scholars, wish to deny him that right. It is argued that a university president must choose his words carefully, to avoid giving offence or discouraging women students of a presumably nervous disposition. People of either sex who are so easily offended or discouraged might be better employed away from the battle of ideas.

It is to be hoped that Mr Summers does not resign, and that Harvard's Corporation, which runs the university, reaffirms its support. For a man of his intellectual distinction, and devotion to Harvard's thriving as a centre of excellence, to be hounded out in this way would be one of the blackest acts in the history of the university.

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Selling America

# Another lady with a tough job

Mar 17th 2005 | WASHINGTON, DC
From The Economist print edition

**After Condoleezza, meet Karen**

NORMALLY, the nomination of somebody to a third-tier departmental job is worth a footnote in the government lists, no more. But this post—under-secretary of state for public diplomacy—is no longer that of a mid-level apparatchik. Its occupant has the chief responsibility for making the world think better of America, especially the Muslim part of the world. And this nominee is no mid-level apparatchik.

She is Karen Hughes, one of George Bush's closest advisers. Her nomination reveals two important things about the Bush administration's second term.

First, Mr Bush is serious in his effort to use American “soft power” to change the Arab world. As he said, the choice of Mrs Hughes “signifies my personal commitment to the international diplomacy that is needed”. He does not want to be remembered only as a warrior president.

Second, the State Department has become the centre of his second-term ambition. Miss Rice's deputy is a former trade representative, Robert Zoellick, an unusually high-powered number two. Mrs Hughes's deputy will be Dina Powell, Egyptian-born and a fluent Arabic-speaker, who was director of personnel at the White House in the first term. You arguably have to go back to George Shultz's State Department under Ronald Reagan to find such a well-connected bunch.

The diplomats need their new clout. Recent surveys by the University of Maryland and the Pew Research Centre show that far too many foreigners think America is a Bad Thing. Large majorities in most countries reckon Mr Bush's re-election was bad for international peace (82% in Turkey, for instance, in the Maryland survey).

America's “public diplomacy”—the bit designed to appeal to ordinary people abroad, as opposed to the formal diplomacy aimed at governments—is “crippled”, “misfunctioning” or plain “missing”. These are not criticisms by outsiders. They come from the department's own advisory commission, or from former directors of the United States Information Agency (USIA), the arm of the White House once in charge of public diplomacy.

Over the past decade, the cold war's panoply of public diplomacy has been dismantled. America has closed libraries abroad. The USIA has been absorbed into the State Department. The last two occupants of Mrs Hughes's job were hardly shining successes. One, a Madison Avenue executive, stayed only long enough to discover that selling America's reputation abroad is not the same as selling Coca-Cola. The second, a career bureaucrat, lasted just a few months.

Will Mrs Hughes do better? She is the shaper of Mr Bush's way of dealing with the press. She has imposed relentless “message-control”, and in one sense it has worked. But it has had its price. In dealing so sternly with journalists, she has driven a group of people inclined to be sceptical of politicians into, in many cases, outright hostility to the Bush team. That does not help to produce Arab converts. On the other hand, her personal connections with the president are a huge plus;

she is a long-time adviser from Texas. She has the contacts needed for the job—and she can hardly be worse than her predecessors.

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Economist.com WORLD NORTH AMERICA

Fake news

# Don't worry. It's only Little Brother

Mar 17th 2005 | WASHINGTON, DC
From The Economist print edition

**Is it appropriate for the government to put out its own "news" broadcasts?**

THE televised interview with John Walters, the White House drug tsar, ran on hundreds of local stations before the 2004 Super Bowl. "Many parents admit they're still not taking the drug [marijuana] seriously," explained the news anchor. "Mike Morris has more." It ended with the usual sign-off: "This is Mike Morris reporting." It looked like a news report, and quacked like a news report. But it was not one. The segment had been produced by Mr Walters's Office of National Drug Control Policy. The apparently independent Mr Morris was on contract to the government.

Bogus television reporting like this is, alas, an established part of American "news management". It is the video equivalent of issuing a press release. It will not disappear overnight. But at least you might have hoped, when government departments are caught doing it, they might feel a bit sheepish. When word of this particular episode leaked out last year, officials at the drug-control office promised not to do it again.

That was then. This week the White House spokesman said that, in promoting fake news, the administration was doing nothing wrong, and that the General Accounting Office (GAO), which had called it illegal "covert propaganda", was talking through its hat.

Legally, the administration has a case. The government is not forcing anyone to broadcast these segments. The government should not be in the business of advocacy (there are laws against that), but it may use public money to provide information. The question is, who decides which is which? The GAO is Congress's watchdog arm. It may think (as here) that fake news is propaganda and that the money to make these broadcasts has been used improperly. It may even be right. But the legal rulings that federal agencies are supposed to follow come not from the GAO but from the Justice Department's Office of Legal Counsel—which claims this is legitimate information.

Anyway, it is not the government's fault if news programmes fail to identify a government agency as the originator of the material they are running. That is the broadcasters' responsibility. And it is no excuse that they are short of cash and correspondents (though they are) and no excuse that government departments—as in the interview with Mr Walters—go out of their way to make the footage look like a ready-to-roll news report.

So is the Bush administration in the clear? Not really. It is on record as saying that there is nothing special about the press: it is just another interest group. As Andy Card, the White House chief of staff, has put it, the administration does not think that the press has "a check-and-balance function". This is a fundamental change of attitude compared with previous administrations and makes this one's use of fake news different.

If there is nothing special about the press, then there is nothing special about what it does. News can be anything—including dressed-up government video footage. And anyone can provide it, including the White House, which, through local networks, can become a news distributor in its

own right. Given the proliferation of media outlets and the eroding of boundaries between news, comment and punditry, someone will use government-provided information as news. In short, the traditional notion that the media play a special role in informing people is breaking down.

Behind all this lies a shift in the balance of power in the news business. Power is moving away from old-fashioned networks and newspapers; it is swinging towards, on the one hand, smaller news providers (in the case of blogs, towards individuals) and, on the other, to the institutions of government, which have got into the business of providing news more or less directly. Eventually, perhaps, the new world of blogs will provide as much public scrutiny as newspapers and broadcasters once did. But for the moment the shifting balance of power is helping the government behemoth.

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Maryland's next senator

# The despot's heel is on thy shore

Mar 17th 2005 | WASHINGTON, DC
From The Economist print edition

**A Maryland senator retires. Small deal? Not quite**

NO GREAT cause for excitement, it might seem, when Senator Paul Sarbanes of Maryland announced last week that he would not seek re-election next year. After all, this 72-year-old Democrat is in his fifth Senate term. Rumours of his retirement have been around for years. And Senate races in this pretty reliably Democratic state are seldom nail-biters.

Still, the news has set off a scramble to fill the senator's shoes. On the Democratic side, Kweisi Mfume, a former congressman who has also been head of the National Association for the Advancement of Coloured People (NAACP), has already declared his candidacy. Four congressmen, a businessman who was ambassador to Morocco under President Bill Clinton and a tough prosecutor have been wondering whether to follow him.

The Republicans, who recaptured the governor's mansion after 36 years in 2002 through Bob Ehrlich, are feeling less bleak about the Senate than they would once have done. Lieutenant-Governor Michael Steele, one of the few black Republicans to hold statewide office, is being urged to step forward. Some even think Mr Ehrlich might step in himself.

If he did, the Republicans could end up with nothing. Almost two out of three Maryland voters are registered Democrats. And getting a tough-minded Republican into the governorship is one thing. Sending one to Washington, to help that demon George Bush, is quite another.

There are clear benefits for the Democrats in Mr Sarbanes's retirement. Although he would doubtless have sailed to re-election if he had stayed on, he is no crowd-puller (his lack of charisma got him nicknamed “the stealth senator”). Now the party has a chance to replace a “boring white Democrat” in the Senate with another sprightly black Democrat. Last year, in Illinois, Democrat Barack Obama became the third black senator since the end of the civil war. And the timing is good, as the Democrats fret about the number of blacks who were willing to vote for Mr Bush last November.

Mr Mfume is an interesting figure. He rose out of the Baltimore ghetto to revive the scandal-rocked NAACP, where he turned a $3.2m deficit into eight years of surplus. He may scare off other would-be candidates (one black congressman has already dropped out). And the Republicans' Mr Steele, even though he got to be lieutenant-governor, hardly looks a match for Mr Mfume in the Senate race.

All the same, local Democratic leaders want to drag in some competition for Mr Mfume. They fear a bruising Democratic primary for next year's governorship race between two well-known white Democrats, Martin O'Malley, the mayor of Baltimore, and Douglas Duncan, the Montgomery County executive. An angry fight between them could hurt the Democrats' chance of ousting Mr Ehrlich (still their main target next year). So the local party is now suggesting that either Mr O'Malley or Mr Duncan try for the Senate seat.

For their part, the Republicans are worried that Alan Keyes, the firebrand black Marylander who is always trying to get into the Senate, might try yet again. His conservative views on abortion and homosexuals are unlikely to go down well with many voters. That could dash the Republicans' hope of winning the Senate seat, and might even derail them in the governor's race too.

Yet few Marylanders will be surprised if Mr Keyes does jump in over the opposition of his party's leaders. He is not a man who easily bows to authority. He even seems to have relished his thrashing in the 2004 Illinois Senate race, into which he carpetbagged his way. The Democrats' Mr Obama trounced him 70% to 27%.

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Economist.com WORLD NORTH AMERICA

**The Arctic National Wildlife Refuge**

# Come on in

Mar 17th 2005 | SEATTLE
From The Economist print edition

**And a-drilling we will go**

ONE of George Bush's fondest ambitions has been to open to oil drilling an area in Alaska called the Arctic National Wildlife Refuge (ANWR, or “Anwar,” as people say it). The refuge has been the scene of a decade-long tug-of-war between pro-drilling interests, who have been raring to get started, and greens (along, according to polls, with most Americans) who have opposed the drillers. The greens argue that a network of pipelines and oil-drilling platforms will do untold harm to caribou, polar bears and millions of migrating birds.

At last, though, Mr Bush and his allies seem to have won. On March 16th, the Senate voted 51-49 to open part of the 19m-acre (8m-hectare) refuge to drilling, with the first lease sales in 2007, and full development perhaps ten years later. Estimates vary, but ten billion barrels of oil may be available in the ANWR, which covers a coastal plain in the north of Alaska.

For greens, the vote was a bitter pill. Keeping oil companies out of the ANWR has been an article of faith, and green groups such as the Wilderness Society have spent a lot of money on blocking efforts to drill. They held the upper hand through the Clinton administration and even in Mr Bush's first term. But with a stronger Republican majority in the Senate, pro-oil forces—for whom drilling in the ANWR was also a matter of principle—saw their chance.

In the past, Democrats have repeatedly used time-consuming filibusters to block any attempt to open up the refuge. This time, language allowing drilling was inserted in a budget bill that may not be filibustered, a tactic drilling opponents saw as dirty play. Their only hope now is that Congress refuses approval of the budget bill, but that looks unlikely. Ted Stevens, Alaska's senior senator, who has campaigned to open the refuge for years, was cock-a-hoop.

Even a month ago, the ANWR had seemed safe from drilling simply because oil companies were showing less interest in the area. Indeed, the two largest companies now working in Alaska, BP and ConocoPhillips, had dropped out of a coalition that was lobbying to enter the area. Now, however, with oil prices around $55 a barrel, soaring prices at the petrol pump have tipped the balance.

Will oil from the Alaska refuge have any impact on those prices? Mr Bush has long touted the ANWR as a vital part of America's “energy self-sufficiency”, the theory that America could probably find, at home somewhere, the equivalent of the 10m barrels of imported crude oil it guzzles every day. Yet, even by ambitious estimates, the ANWR has enough oil for less than two years' consumption by the United States. At the very peak of production it might supply 1m barrels a day, but that will hardly do anything to bring down current prices—not least because no oil will be seen at all for many years. The world certainly needs more oil, but the refuge will not do much to supply it.

Economist.com WORLD NORTH AMERICA

Same-sex marriage

# Simply put, he explained

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From The Economist print edition

**Has a California judge inadvertently given conservatives the chance to push through more laws banning gay marriage?**

"SIMPLY put," said the judge, "same-sex marriage cannot be prohibited solely because California has always done so before." Cue for statewide gay and lesbian jubilation, be it an impromptu rally in San Francisco's Castro district or West Hollywood's official city celebration, complete with a "wedding-cake and champagne reception". In a 27-page decision Richard Kramer, a San Francisco Superior Court judge, had ruled on March 14th that California's statutory ban on same-sex marriage was a violation of the civil rights guaranteed by its constitution.

Put equally simply, Gavin Newsom, who as mayor of San Francisco authorised some 4,000 same-sex marriages just over a year ago, was right and the attorney-general of California, Bill Lockyer, defending state law, was wrong. "No rational basis", said Judge Kramer, "exists for limiting marriage in this state to opposite-sex partners."

Indeed, to limit marriage in this way is anti-homosexual discrimination akin to racial discrimination. In 1948, California's Supreme Court ruled that the state's ban on interracial marriage violated the equal-protection clause of the United States constitution. Advocates of the racial ban had asserted that, because historically blacks had not been permitted to marry whites, the statute was justified. The court, Judge Kramer recalled, had rejected this argument: "Certainly the fact alone that the discrimination has been sanctioned by the state for many years does not supply such [constitutional] justification." In other words, tradition is no excuse.

But what if homosexual couples are given "marriage-like" rights by California's new domestic-partnership law—proof, says Mr Lockyer, that a ban on gay marriage is not discrimination? Judge Kramer's response, referring to a 1952 Supreme Court ruling on segregated schools, is dismissive: "The idea that marriage-like rights without marriage is adequate smacks of a concept long rejected by the courts—separate but equal."

As to the argument put by conservative groups that the purpose of marriage is procreation and child-rearing by a man and a woman, the judge replies: "One does not have to be married in order to procreate, nor does one have to procreate in order to be married." Indeed, whereas heterosexual couples who are unable or unwilling to have children are free to marry, "same-sex couples are singled out to be denied marriage." The state can legitimately, for health reasons, ban incestuous marriages, but the judge, citing the 1948 state Supreme Court judgment, said it cannot discriminate on the "arbitrary classifications of groups or races".

Opponents of gay marriage have had a mixed reaction. They all claim to be horrified. The Reverend Louis Sheldon, founder of the Anaheim-based Traditional Values Coalition, called the ruling "yet another example of judicial tyranny". But he went on to add that it makes "it clearer than ever that California needs a constitutional amendment to protect marriage as a union of one man and one woman."

As this implies, conservatives are confident (and many gays fear) that every judicial decision in favour of same-sex marriage adds momentum to the campaign for constitutional bans on such marriages. Of the 17 states that have changed their constitutions to ban same-sex marriages, only Nebraska, Nevada, Alaska and Hawaii did so before 2004. The other 13 did so in 2004—the year not just of the San Francisco change but also of same-sex legalisation in Massachusetts.

Judge Kramer's ruling will give ammunition to those pressing George Bush to renew last year's electorally convenient drive to amend the federal constitution. Evangelical Christians, who claim credit for the president's re-election, have made it clear that their support for Social Security reform is contingent on Mr Bush's support for a constitutional amendment.

So what next? With the judge's ruling stayed for 60 days in order to allow for an appeal, the answer for California is yet more legal wrangling, first to the state court of appeal in San Francisco and then, probably next year, to the state Supreme Court—the very court which last August ruled that Mayor Newsom had exceeded his authority and that the 4,000 same-sex marriages were therefore invalid. The Supreme Court, however, ruled on very narrow grounds that time, studiously avoiding the constitutional issues raised by Judge Kramer.

The longer-term question is the political impact. Victories for same-sex marriage tend to produce a voter backlash: witness last year's amendments to state constitutions. One effect of Judge Kramer's ruling is to nullify not just that part of the 1977 California Family Code which defines marriage as between a man and a woman but also the state's Proposition 22, approved five years ago by a margin of 61.4% to 38.6% and stating bluntly that “Only marriage between a man and a woman is valid or recognised in California.”

However, Judge Kramer cannot be dismissed as just another wacky San Francisco leftie with an activist agenda. This 57-year-old Roman Catholic is a registered Republican, appointed in 1996 by a Republican governor, Pete Wilson.

And the evidence from last year's election is not quite as definitive as conservatives claim. Exit polls showed that, although only 25% of Americans supported same-sex marriage, another 35% supported civil unions for homosexuals. Put another way, most Americans are relaxed about gay couples getting some form of legal pact. Perhaps that is why Mr Bush is not rushing to push through a federal ban.

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Lexington

# The last-chance saloon

Mar 17th 2005
From The Economist print edition

**Gerry Adams should not underestimate the mess the IRA is in**

THE United States has got into the habit of rolling out the green carpet for Gerry Adams, the leader of Sinn Fein, every St Patrick's Day. Mr Adams glad-hands loyal Hibernians across the country, raises fistfuls of dollars for his party, hobnobs with politicians on Capitol Hill, and, as the fourth leaf on the clover, enjoys a St Patrick's Day lunch in the White House.

This year was rather different, thanks to a series of dismal events in Northern Ireland (including a $50m bank heist, the brutal murder of an Irish Catholic, Robert McCartney, by thugs of the Irish Republican Army, and another collapse of the peace process). Mr Adams started the week happily enough with a “conversation” at the Council on Foreign Relations, an august think-tank. There were brief allusions to his connections with the IRA, and to the terrorists' alleged involvement in both the heist and the murder (alleged, that is, by both the British and Irish governments). But the audience mostly served up softball questions. Jean Kennedy Smith, Ted Kennedy's sister and a former ambassador to the Irish Republic, gave “Gerry” a nice hug.

Then things went downhill. The White House pointedly failed to invite Mr Adams to the St Patrick's Day lunch. Instead, it invited Mr McCartney's fiancée and his five sisters, who are campaigning for the killers to be brought to justice. (The IRA has kindly offered to shoot the perpetrators, but this is not quite what the family means by justice.) Senator Kennedy, the king of Irish America, refused to meet Mr Adams, but met the McCartneys, as did Hillary Clinton. Even Pete King, Mr Adams's favourite congressman, has announced that the time has come for the IRA to go out of business. Mr Adams couldn't even console himself with a pile of greenbacks. For the first time in seven years he travelled on a visa that didn't allow him to raise money.

The White House has stopped short of knee-capping Mr Adams. It carefully failed to invite Northern Irish politicians of all stripes to its lunch, not just Mr Adams. It also arranged a meeting between Mr Adams and America's special envoy to Northern Ireland, Mitchell Reiss. If Mr Adams can persuade Tony Blair that he is serious about restarting the peace process, George Bush will surely play along. But White House people say that if Mr Adams can't persuade Mr Blair, then he is in danger of getting on the wrong side of America's war on terrorism.

Mr Bush's critics like to focus on the internal contradictions of the “Bush doctrine” on terrorism, and its tolerance of Mr Adams has been a conspicuous example. But David Frum, a former Bush speechwriter who is now at the American Enterprise Institute, argues that the significant point about the Bush doctrine is not its short-term contradictions but its long-term potential to reorder America's foreign policy. People who think they can hide in the policy's contradictions are sooner or later exposed. It is happening to Syria; it could happen to Mr Adams.

After all, three things have long been known about Sinn Fein. First, it is joined hip-and-thigh with the IRA, a terrorist organisation that has killed more than 1,700 people since 1970. (The Irish government has outed Mr Adams as a member of the IRA's seven-man army council, along with another leading light of Sinn Fein, Martin McGuinness.) Second, Sinn Fein-IRA has an anti-American bent. Sinn Fein led a campaign against giving American military aircraft landing rights at Shannon international airport during the Iraq war, for example. Third, the IRA has connections with other terrorist organisations. A senior congressional aide says the “bloom came off the IRA's rose” in 2001 with the discovery that the organisation was training terrorists in Colombia. “This has nothing to do with the British empire or national liberation,” he says. “This is our own backyard.” Colombia supplies most of America's cocaine and heroin, and its terrorists have been holding three American citizens hostage for several years.

The White House has been prepared to overlook these details since September 11th, for the sake of Mr Blair's Ulster peace process. But remove the peace process from the equation, and what are you left with? Just another purveyor of terrorism.

## They kill Catholics, too

Mr Adams cannot even rely on the perpetual support of America's Irish community. The strength of that lobby is often exaggerated: there are arguably as many Americans descended from Irish Protestants as from Irish Catholics. And the old world of tight-knit communities that kept the anti-British cause alive is fast disintegrating. Established Irish families are moving to the suburbs, and a growing number of recent Irish immigrants are young professionals who spend their evenings discussing loft prices rather than swapping tales about British oppression.

Of course, there are still plenty of Irish-Americans who like to celebrate St Patrick's Day by singing rebel songs and unfurling “Britain out of Ireland” banners. But even these sentimentalists have had their faith shaken by recent events. It is one thing to forgive the IRA for “collateral damage” in a national liberation struggle. But what happens when its people slit open the abdomen of a fellow Catholic from navel to breast bone, sever his jugular vein and then gouge out an eye—as happened to Mr McCartney? It is one thing to dismiss everything the British government says as imperialist propaganda. But what happens when the Irish prime minister in Dublin accuses the IRA of criminal activities?

Perhaps Sinn Fein can change its ways. But so far the signs are not good. This week Mr McGuinness warned the McCartney sisters to stay out of politics, as if Sinn Fein has a veto over who can take part in democracy. If Mr Adams doesn't mend his party's ways, come next St Patrick's Day he won't even be able to count on an invitation from the usually flexible folk at the Council on Foreign Relations, let alone lunch at the White House.

Argentina

# Taking on foreigners, again

Mar 17th 2005 | BUENOS AIRES
From The Economist print edition

AFP

**President Kirchner draws the wrong lessons from his debt restructuring success**

Get article background

FEW democratically elected leaders have assumed office with a weaker mandate than Argentina's Néstor Kirchner. He was the fourth-choice candidate of his own Peronist party, garnered just 22% of the vote in 2003, and won only when Carlos Menem, a former president, withdrew from the run-off. But after indisputable success in restructuring his country's debt—creditors holding 76% of its defaulted bonds accepted an unprecedented loss of about 65%—Mr Kirchner's legitimacy and popularity have reached new heights.

The timing is propitious. In legislative elections due in October, he could face a bitter battle for control of his own Peronist party, while seeking to extend its hold on the government. Despite hopes that he might spend his new political capital on policy reform, his latest actions suggest he could go on accumulating it instead—by attacking foreign interests.

Consumer prices jumped 2.5% in the first two months of this year, raising the spectre of 1980s-style hyper-inflation. When Shell raised fuel prices last week by up to 4.2%, Mr Kirchner called for a boycott of its petrol stations, causing the Anglo-Dutch oil company's sales to drop by 70%.

Less than one in five of the affected stations is actually owned by Shell. But Mr Kirchner has shown little sympathy for local station owners, suggesting they could work instead with Enarsa or PDVSA, the state-owned oil companies in Argentina and Venezuela respectively. This has fuelled speculation that the Shell boycott was designed to facilitate the sale of its retail business to those two companies—as Hugo Chávez, the Venezuelan president, has proposed.

Argentina's overall business environment seems unlikely to suffer much. The government is planning no formal measures against Shell, and the company has said it will remain in Argentina. But many observers are worried that, as Mr Kirchner hits the campaign trail this week, he may be tempted to adopt similarly harsh tactics towards other international businesses.

Now that Argentina is out of default, negotiations with foreign-owned utility companies have risen to the top of Mr Kirchner's economic agenda. During the 2001-02 financial crisis, the government converted their dollar-denominated rates to devalued pesos and has kept them frozen ever since—despite inflation of nearly 60%. The government is refusing any rate increase for residential users, but has offered overall tariff increases of mostly under 20%. Most firms have rejected them.

With negotiations stalled, the utilities have taken some $20 billion in claims to the World Bank's International Centre for Settlement of Investment Disputes. The first judgments are expected later this month. But Mr Kirchner has indicated that he will ignore any rulings against the government, even though failure to comply could lead to trade sanctions. As president, he has repeatedly launched tirades against the perceived foes of Argentinian interests. The World Bank and foreign utility companies could make tempting new targets.

“His politics are of confrontation and polarisation, of the daily plebiscite,” says Jorge Castro, former secretary of strategic planning. “He needs adversaries to define himself against. It's not his temperament; it's a developed strategy.”

Mr Kirchner has also been busy picking fights with his own party, which has shown him questionable loyalty since elevating him to the presidency. For the forthcoming elections, he reportedly wants to choose half the Peronist candidates in the populous Buenos Aires province—a task traditionally performed by Eduardo Duhalde, the local party leader and a former president. If Mr Duhalde refuses to give way, Mr Kirchner may decide to run his popular wife, the current Santa Cruz senator, Cristina Fernández de Kirchner, as a senatorial candidate in Buenos Aires in a direct challenge to Mr Duhalde.

But imposing his wife on the local party or openly backing the opposition, as he recently did in a provincial election, would be risky for the president. Open party conflict could lead to losses: only last month, a Kirchner-backed Peronist gubernatorial candidate was felled in Santiago del Estero province. But it might have the salutary effect of reinvigorating multi-party democracy in Argentina, which has been dominated by Peronism since the Radical government of Fernando de la Rua fell during the economic crisis.

Will Mr Kirchner be satisfied with an unsafe hold on the Peronists? Taking on multi-billion-dollar corporations is one thing, but staring down the party machine that put him in office could prove his stiffest challenge yet.

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Economist.com WORLD LATIN AMERICA

Mexico

# The race goes on

Mar 17th 2005 | MEXICO CITY
From The Economist print edition

**Mexico's left-wing presidential front-runner looks unstoppable**

ACCORDING to political taste, it is either an act of mass political pollution or a celebration of people power. All over Mexico City, the slogan "*No al Desafuero*" currently adorns anything that can be adorned, from walls to car bumpers to T-shirts. All the fuss is about the political future of the city's popular left-wing mayor, Andrés Manuel López Obrador.

For almost a year now, attempts to strip him of his immunity from prosecution (a process known as a *desafuero*) have been proceeding through the political system. If successful, this could knock him out of contention for the presidential election in 2006, as he would have to face trial for what even his opponents admit is a minor legal transgression. But now, as some sort of a resolution to the convoluted process seems to be in sight, it looks increasingly likely that Mr López Obrador will beat the rap.

The saga began when the federal procurator-general asked that Mr López Obrador be stripped of his legal immunity to face charges arising from his building a road across private land to a city hospital—despite a court order banning him from doing so. President Vicente Fox's right-of-centre government claims that this *desafuero* is a legitimate legal process, which should be followed through to the end.

Rubbish, says Mr López Obrador. He claims the whole thing has been a blatantly political charade from the outset. All the polls make Mr López Obrador the clear front-runner to become the next president, usually by at least ten points. The mayor claims that his political opponents are using a legal technicality to remove him from a presidential race they know they cannot win against him. And, increasingly, it looks as if most Mexicans agree with him.

New polls out this week show sentiment against the *desafuero* is growing. One, by Consulta Mitofsky, has 80% of the population opposed to it, compared with 58% last September. Even among the grass-roots of parties formally ranged against Mr López Obrador, most are hostile. Another poll suggests 78% of those in urban areas are similarly against it.

These numbers will be closely watched by Mr López Obrador's opponents, particularly the leaders of the former ruling party, the Institutional Revolutionary Party (PRI). For ultimately the mayor's fate is in their hands. A simple majority vote in Congress is required to pass the *desafuero*. Although the PRI, the party with the most seats, does not have an overall majority, it could easily get a vote through in alliance with President Fox's National Action Party (PAN), which has already indicated a willingness to vote against Mr López Obrador.

But with the mayor winning the battle of public opinion, the PRI will probably want to think again. Most people regard Mr López Obrador's legal infringement as petty and even frivolous compared with what many PRI leaders have got away with in the past. To remove the most popular candidate from the presidential race on these grounds would undermine the democratic credibility of the eventual winner. He or she would have even less legitimacy than President Carlos Salinas

had in 1988, after fraudulently stealing the election from another left-wing candidate, Cuauhtémoc Cárdenas.

A more likely outcome, therefore, would be for the *desafuero* to die in the four-person congressional commission now examining it. Just one of the two PRI members would need to vote against it for it to be prevented from going on to a full vote by Congress. Mexico could then have its epic showdown between Mr López Obrador and his arch rival, the PRI's Roberto Madrazo, in 2006. And if Mr López Obrador won that contest, he would finally have his chance to prove whether he is going to be Mexico's Lula, as many hope, or Mexico's Chávez, as just as many others fear.

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Economist.com WORLD LATIN AMERICA

Bolivia

# A president under siege

Mar 17th 2005 | SÃO PAULO
From The Economist print edition

**President Mesa calls for early elections; but they may not happen**

EPA

**Intifada, Bolivia-style**

EARLIER this month Carlos Mesa threatened to resign as Bolivia's president, hoping to break a political deadlock that made it impossible to govern. By March 15th, a week after agreeing to stay in office, he had apparently given up. With Bolivia facing “collective suicide”, Mr Mesa called for a general election next August, almost two years before his term expires. The proposal has thrown Bolivia, already rent by blockades and bitter disputes over natural resources, into further turmoil.

The reasons for Mr Mesa's desperation are apparent. Radical movements hostile to private investment in Bolivia's oil-and-gas sector have been blockading roads for weeks. The main road between eastern and western Bolivia has been impassable. Mr Mesa has resisted pressure, especially strong in the entrepreneurial east, to use an “iron hand” against agitators (the deaths of 60 forced the resignation of his predecessor in 2003). But prosecutors have rejected the president's plea to use “the hand of justice” against them, saying they are doing nothing illegal.

He had been hoping to purchase peace with compromise: a hydrocarbons law that would tax investors heavily without breaking existing contracts and provoking them to sue the government. But Congress seemed to be wriggling out of a deal with him to pass such a law. On March 16th the lower house approved a version that would add a flat 32% tax to royalties of 18%. That is almost the same as the 50% royalty demanded by Evo Morales, who leads a coca-growers' union and the radical Movement to Socialism party, the second biggest in Bolivia's Congress. The Senate may well lack the courage to overturn the populist measure passed by the lower house.

The future could hardly be murkier. According to the constitution, only the top judge can call an early election, and then only for president and vice-president, not for Congress as well, as Mr

Mesa wants. He has asked for a political pact, under which Congress would dissolve itself, paving the way for a general election. That resolved a crisis in the mid-1980s. This time, however, Bolivia needs a “social pact” as well to quieten opposition in the streets, notes Gonzalo Chavez of the Bolivian Catholic University.

The forces that are making the president's job impossible do not want him to quit. No one in politics, including Mr Morales, feels strong enough to face the voters within five months. Except, perhaps, Mr Mesa, who belongs to no party. He may be positioning himself as a centrist alternative to Mr Morales on the left and former president Jorge Quiroga on the right. But he may not be legally allowed to run again.

Mr Morales has called for temporary suspension of the blockades (until the Senate convenes to consider the hydrocarbons law). Any respite is welcome. But it will do nothing to resolve the war between Bolivians who want to hitch their economy to the outside world and those who would turn their backs on it.

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Air India bombing

# A controversial verdict

Mar 17th 2005 | VANCOUVER
From The Economist print edition

**Two men accused of blowing up an Air India jumbo jet in 1985 are acquitted**

IT WAS the longest, most complex, most expensive trial in Canada's history—and the worst case of aerial terrorism before September 11th 2001. But after two years of hearings, Canadians did not get the closure they had hoped for. On March 16th, the two Sikh nationalists accused of blowing up an Air India flight nearly 20 years ago, killing all 329 people on board, were allowed to walk free.

British Columbia's Supreme Court found Ripudaman Singh Malik, a businessman, and Ajaib Singh Bagri, a millworker, not guilty on all eight charges of murder, attempted murder and conspiracy. They had been accused of planting two bombs, one that destroyed Air India's Toronto-to-Delhi flight 182 on June 23rd 1985; and a second that exploded in a suitcase while being transferred to another Air India flight in Tokyo's Narita airport, killing two baggage-handlers. The judge said the prosecution, which alleged the men were seeking to punish India for its crackdown on Sikhs, had failed to prove its case.

For many moderate Canadian Sikhs, long convinced of the two men's guilt, it was a controversial decision. In the 1980s, when the attacks were carried out, Sikhs around the world were in ferment over the emergence of a militant Sikh separatist movement whose goal was to carve an independent Sikh state—called Khalistan—out of the Punjab. In 1984, an Indian army raid on the Golden Temple in Amritsar, Sikhism's holiest shrine, to capture an armed band of Sikh separatists, outraged fundamentalist and moderate Sikhs alike.

The plot to blow up the two Air India planes was alleged to have been in retaliation for this “sacrilege”. Both sides in the case accepted that the bombing mastermind was a Sikh fundamentalist leader from British Columbia, Talwinder Singh Parmar, who was killed in a shoot-out with Indian police in 1992. Both men in the present case are admitted nationalists.

Although the prosecution was able to prove that the two bombs had been hidden in luggage originating in Vancouver, capital of British Columbia, it was unable to provide hard evidence linking the two men directly to either the fabrication or the planting of the bombs. It could only offer circumstantial evidence based on claims from a handful of witnesses that they had heard the accused admit involvement in the plot to blow up the planes. The judge found that their testimony lacked veracity, consistency and credibility.

Other potential witnesses are believed to have been held back by a climate of fear that militants had created in Canada's Sikh community. Those who spoke out against extremism (the current federal health minister, Ujjal Dosanjh, was one) were often beaten, bombed or killed. One important witness, a Sikh newspaper publisher who had written against Sikh nationalists, was murdered before he could testify.

This week's acquittal will not end the Air India affair. Beyond a possible appeal, relatives of the victims are demanding a public inquiry into the alleged bungled investigations by Canada's

security and intelligence services. But the government is not keen. Anne McLellan, the federal public safety minister, says she does not see the “benefit” such an inquiry would bring.

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Honduras

# Unwanted tourists

Mar 17th 2005 | TELA
From The Economist print edition

**Honduras gets tough on child prostitution**

AP

**She could be next**

FOR better and for worse, Honduras's Atlantic coast has long enjoyed a reputation as being at the raffish end of the Caribbean experience. After all, it is cheap and cheerful, a diver's paradise, and home to the famous black Garífuna culture. And for those same reasons, as well as for its hundreds of miles of often uninhabited coastline, it also attracts more than its fair share of smugglers, drug-traffickers and sundry other outlaws. Not for nothing did Paul Theroux set his novel of madness in the jungle, “The Mosquito Coast”, here.

But now the Honduran authorities want to get tough with at least one of the coast's more seedy afflictions, the trafficking and sexual exploitation of central American children. According to Honduras's deputy head of police, this is a “grave and delicate problem”, particularly around the tourist centres of Tela, La Ceiba and Roatan, frequented by Americans and Europeans. In the past, Honduras's mainly Catholic, conservative society has been reluctant to discuss the problem openly. But the abuse has grown so blatant that such wilful disregard is no longer possible.

Exactly how big the problem is, no one is quite sure, only that over the past couple of decades it has been getting worse and that western visitors are much to blame. In Tela, for instance, Jiovany Murillo, head of the local Tourist and Community Police, guesses that as many as 40% of the 120,000 annual visitors to the town could be sex tourists. Some may do nothing more than take supposedly innocent “holiday snaps” of children and women on the beach, and then post them on the internet, he says. But others do much worse. Honduras's Atlantic coast is a region of often extreme poverty, and this makes many children, often victims of sexual abuse in their own homes, easy prey for local child-trafficking gangs.

To break this cycle, and to puncture the climate of embarrassed silence, charities such as Save the

Children and Casa Alianza, along with local government agencies have started running programmes to raise public awareness. But what is most needed, both they and the law enforcement agencies argue, is much tougher legislation of the kind used by Costa Rica since the mid-1990s. In Honduras, it is difficult to bring criminal charges against those suspected of child trafficking and exploitation, as distinct from physical abuse. Even when charges stick, the penalties are often light, ranging from small fines to just a few years in prison.

But this may soon change. Under proposed changes to the penal code now being considered by the Supreme Court, prosecutions would become easier and sanctions much tougher. Many are sceptical as to whether this will act as much of a deterrent to poor Hondurans, who see the sex-trade as an easy way to make money. But it could make those visiting westerners think again.

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Economist.com WORLD ASIA

The Philippines

# Limping forwards

Mar 17th 2005 | MANILA
From The Economist print edition

AFP

**A crippled woman leads the way for democracy in the Philippines**

Get article background

“MY WEAKNESS is my strength,” declares Grace Padaca, the governor of the Philippines' poor northern province of Isabela. She is referring not only to a childhood bout of polio, which left her unable to walk without the help of crutches, but also to her lack of political connections and financial muscle—all of which made her an unlikely challenger to her predecessor, Faustino Dy junior, at last year's election. His complacency, she says, helped her to win, and thus to put an end to the Dy family's 41-year monopoly of the job. But getting elected, it turns out, was the easy part. Since taking office, Miss Padaca has discovered how weak the hand of reformist politicians really is, and how strong the Philippines' political dynasties remain.

Most of the Philippines' top politicians belong to influential political clans. Gloria Arroyo, the president, is the daughter of a former president. Her son and brother-in-law are both members of Congress. In the previous Congress, no fewer than 61% of representatives had relatives in some other elective office. If you discount the small number of representatives elected by party, rather than directly, the proportion is even higher. Moreover, the figure is rising. Philippine politics, at least at the national level, is more dynastic than ever before. Isabela is a case in point: both the father and a brother of Miss Padaca's rival had served as governor before him; another relative represents Isabela's third district in Congress, while two others are mayors of cities in the province.

Such families perpetuate themselves in power by building elaborate patronage networks, which function much as political parties do elsewhere. Those higher up the ladder use their office to channel money, jobs and other benefits to their supporters, while those lower down help to turn out the vote on behalf of their benefactors. Altogether 33 of Isabela's 36 mayors, for example, supported Mr Dy in the election. So, says Miss Padaca, did the Chinese-Filipinos who dominate business in the province. (The Dy family itself is of Chinese origin, and owns a successful trucking business.) Mr Dy, in turn, campaigned on behalf of Mrs Arroyo.

Miss Padaca was able to counter these alliances thanks to her popularity as a crusading radio commentator and support from the Catholic church. But since taking office, she has found the system stacked against her once again. Civil servants, she complains, remain loyal to the Dy clan. She tried to transfer seven of them, only to be ordered to reinstate them by the local civil-service commission. The province's mayors, meanwhile, have chosen Napoleon Dy, one of Faustino's brothers, as head of their association. The former governor also left the province heavily in debt, leaving Miss Padaca no money to fund any new programmes.

Filipino dynasts have many such tricks up their sleeves. A member of the Joson clan, from nearby Neuva Ecija province, once shot a political rival, only to win the subsequent election from his jail cell. On election day in Isabela, police just happened to raid the radio station where Miss Padaca used to work and which was supporting her, temporarily shutting it down. Mr Dy, meanwhile, vigorously disputed Miss Padaca's victory for several months in the election commission and the Supreme Court. Although legal wrangling failed in this instance, it worked for another relative, Faustino Dy III, when he ran for Congress against Miss Padaca in 2001. He persuaded officials to ignore certain disputed ballots, tilting the vote his way.

Now, rumour has it, supporters of Mr Dy are preparing a drive for a California-style recall election. Even if Miss Padaca sees out a full three-year term, she worries that Mr Dy's allies will paralyse her administration, paving the way for his return to power at the next election. “I sometimes cry myself to sleep at night,” she admits.

Sheila Coronel, of the Philippine Centre for Investigative Journalism, argues that it is almost impossible for independent candidates to break the political dynasties' lock on high office, thanks to the costliness of running a credible campaign. The only exceptions are the very wealthy, or those, like Miss Padaca, who have become famous in another profession. Thus the 24-member Senate, which is elected from a single, nationwide constituency, includes several former movie stars and generals alongside the scions of the Philippines' grandest political clans.

Yet mayoral and local elections are becoming more competitive, according to Joel Rocamora of the Institute for Popular Democracy. In such lowly offices, he says, there are more first-generation politicians than dynasts. In part, this is because local campaigns are cheaper and easier to run. The central government has also devolved more authority to local government in recent years, while cutting funding. That makes the job of local officials more difficult, and so helps to show up the less competent administrators.

At the last election, Mr Rocamora's left-leaning, anti-dynastic party, Akbayan, won 20 mayoral races—including the one in Iligan, the capital of Isabela. He counts another 60-odd mayors as close allies. Some of these trail-blazers, he hopes, might eventually rise through the political ranks to become governors and congressmen. Mar Roxas, a dynastic senator himself, argues that demographics will gradually undermine political clans: as people move to the cities and receive more schooling, they will become more independent-minded. “But,” Miss Coronel gives warning, “it will take a long, long time.”

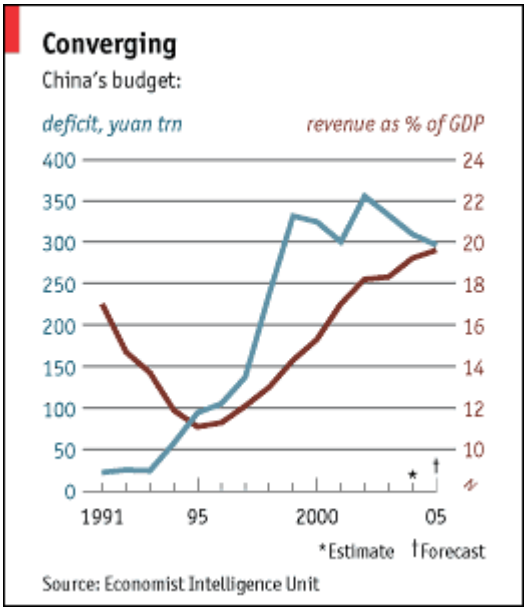
China's economy

# Budgeting for harmony

Mar 17th 2005 | BEIJING
From The Economist print edition

**Reforms to keep things the same**

THE new slogan of choice for Chinese leaders is the need to build a “harmonious society”. At the annual session of China's parliament, which ended this week, it was the mantra of the Communist Party's nearly 3,000 handpicked delegates. But could this worthy goal suggest that economic policy, which has created greater affluence but at the same time exacerbated social divisions and regional disparities, is about to change?




China's prime minister, Wen Jiabao, would like to give the impression that something is afoot, although there are reasons to be dubious. The man who first proposed in the 1980s that some Chinese should be allowed to “get rich first”, Deng Xiaoping, by the end of that decade was giving warning of the dangers of polarisation. Yet the 1990s saw continued rapid growth and an accelerated widening of the wealth gap between rich and poor, between urban and rural areas, and between coastal regions and the interior.

Creating a “harmonious society” was officially declared a top party priority in September last year. Mr Wen stressed the idea in his speech to the legislature on March 5th. At a news conference this week (see article), he said that achieving this state of harmony would require reform, and that “this year is a year of reform”.

Tweaking budget allocations is a key measure. This year's budget, approved by the legislature, calls for more spending on a new rural health-care programme aimed at reversing the near collapse of rural medical services in recent years. It also calls for an increase in central-government handouts to rural areas, to make up for their loss of revenue as a result of reforms intended to reduce peasants' tax burdens. The government plans to abolish agricultural tax by 2006, two years earlier than it had originally planned. And it also says it will abolish primary-school fees for all children in rural areas by 2007.

This show of largesse has been enabled by a 21.4% increase in government revenue last year (thanks not least to big oil profits and better tax collection methods). But it may not be sustainable. This year's revenue growth is projected at a more modest 11%. The government predicts that urban incomes will grow by 6% this year and rural incomes by 5%, a disparity similar to last year's.

The government is not about to embark on a spending spree to redress the imbalances. The budget includes a demand for a reduction in the deficit—a 6% cut to 300 billion yuan ($36 billion).

This would represent a deficit of about 2% of GDP, down from last year's 2.5% (see chart). It signals a winding down of the pump-priming policy brought in to maintain high economic growth in the wake of the Asian financial crisis of 1997. This policy has involved billions of dollars of government spending on infrastructure, much of it in less prosperous areas.

The reforms mentioned by Mr Wen are a continuation of long-standing goals: to make the bureaucracy more efficient; promote good corporate governance in state-owned enterprises; sort out the country's banking mess (see article); try to establish an adequately funded urban social-security system; and introduce a new tax regime in the countryside. But none of these policies will change the fundamental cause of inequality between rural and urban areas: massive underemployment in the countryside.

The thrust of China's strategy will remain boosting urban development in the hope that this will create job opportunities for rural migrants and prevent unrest among city dwellers. The focus will be on maintaining a high economic growth rate. And the main contributors to growth will be exports (mainly from the more prosperous coastal regions), consumption (primarily by urban residents) and investment (mainly in cities).

China's biggest worry this year is the possibility that excessive investment could force the government to adopt harsher tightening measures. This could force the economy into a “hard landing” (in China this could mean growth of around 6% a year, compared with more than 9% at present). Such a slowdown would certainly affect the livelihoods of many of the 100m rural migrants working in urban areas. But the leadership's biggest concern would be the impact on urban residents, whose discontent could more readily precipitate an organised challenge to the party's rule.

Fears of a property bubble that, if it burst, could create urban China's first widespread experience of negative equity prompted the authorities in Shanghai last week to announce a 5.5% capital-gains tax on the sale of property held for less than a year. The measure is intended to deter speculative buying. China has seen how a collapse in Hong Kong's property market fuelled anti-government sentiment that prompted hundreds of thousands to take to the streets two years ago. For ideological reasons Mr Wen dare not say it, but keeping China's new middle class happy is essential to the pursuit of harmony.

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China and the media

# Next question, please

Mar 17th 2005 | BEIJING
From The Economist print edition

**The Politburo withdraws to the shadows**

IT IS not a surprise that the Chinese term for *glasnost*, meaning openness, *gongkaihua*, has never gained currency in English usage in the same way as its Russian equivalent. It has gained little currency in China. This week's news conference by the prime minister, Wen Jiabao, demonstrated if anything that, at the topmost echelons of government, there is even less openness to the media than there was a decade or more ago.

Of the 24 members of the Communist Party's ruling Politburo, Mr Wen is the only one who has any regular contact with the media in China, and that only once a year. Both he and President Hu Jintao hold joint news conferences with foreign leaders when travelling abroad or (with extremely important foreign leaders only) in Beijing. But Mr Hu by himself has yet to hold a news conference in China since his appointment as party chief in 2002, or as president the following year. Indeed, he never has.

Mr Wen's annual question-and-answer session is broadcast live in China, but is carefully stage-managed. Officials contact select journalists (foreign and Chinese) in advance to ask what questions they would like to raise. Most of the reporters who are called upon at the news conference to ask questions belong to this group. No follow-up questions by the same reporter are allowed. A curious lack of simultaneous translation ensures Mr Wen's exposure is effectively halved by the time devoted to his interpreter. His ponderously delivered answers are mostly rehearsed in advance—as shown by the interpreter's fluent rendition of his quotations from classical poetry.

It was not always so. Back in 1987, in an experiment not repeated, the newly appointed party chief (the late Zhao Ziyang) answered impromptu questions from reporters. Every year until the Tiananmen crackdown of 1989, foreign journalists could mingle freely with Politburo members at a National Day reception. In the 1990s, questions raised at the annual prime-ministerial press conference were less contrived. This week, however, Mr Wen told journalists he had been “deeply touched” by the “hundreds of questions” that users of a government-run internet bulletin board had suggested be put to him. “Although we meet every year, it is not enough,” he said. A glimmer of *gongkaihua*?

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India and America

# Happy ending?

Mar 17th 2005 | DELHI
From The Economist print edition

## Still bickering after all these years

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AP

Shall we dance?

LIKE a novel where it is obvious from the outset that the two protagonists are meant for each other, but take hundreds of pages to get together, India and America should form a natural partnership yet are usually at odds. As Condoleezza Rice, America's new secretary of state, started a tour of Asia in the Indian capital this week, the two countries were closer than ever to achieving their happy ending. Democracy's superpower and its most populous nation are enjoying a honeymoon. But old bugbears remain, and some new ones have cropped up.

The biggest snag remains America's alliance with Pakistan, whose co-operation is essential for the campaign against al-Qaeda, but which India regards as a big exporter of terrorists on to its soil. India is still smarting from the snub it felt last March, when Ms Rice's predecessor, Colin Powell, proceeded to Pakistan after a friendly visit to India. In Islamabad, he announced that Pakistan was to be one of America's “major non-NATO allies”—an important detail he had omitted to mention in Delhi.

One year on, the peace process between India and Pakistan has made some progress. So, in theory, India should be less touchy about America's ties with Pakistan. But India remains opposed to America's possible delivery to Pakistan of F-16 fighter planes. K. Subrahmanyam, a leading Indian strategist, argues that in India “nobody will lose sleep” about the military implications. But he says it has symbolic importance, revealing American-Pakistani co-operation, and because F-16s could potentially carry Pakistan's nuclear arms.

The peace process with Pakistan has itself thrown up a new bone of contention: a proposed pipeline bringing gas from Iran to India across Pakistan. An important part of India's strategy to secure future energy supplies, the pipeline would also give both India and Pakistan a big economic stake in peace. But Ms Rice repeated America's misgivings about the benefits it would bring Iran. Given America's hold on Pakistan, that probably scuppers the project.

India is pleased with the progress made under the so-called “New Steps in Strategic Partnership” with America, giving it access to higher-technology imports with possible military uses. The relationship could be transformed—and India's military and energy worries dissipated—by two further conceivable transfers of technology: of a large number of F-16s to India itself; and of nuclear reactors. America currently refuses to sell India reactors. That a similar ban on China has been lifted rankles in India, as does Ms Rice's waffling over another issue where India is demanding parity with China: permanent membership of the United Nations Security Council.

The two countries could, however, boast about their co-operation over Nepal, where both have urged King Gyanendra to restore the liberties he took away in a coup on February 1st. Even here, however, there are differences. America seems more prepared than India to give the king a chance to win the war against the Maoists without the bother of party politics. After India announced a freeze in military help to Nepal, Pakistan offered to plug the gap. There, too, America might make a difference.

For many Indians, however, these are nuances that do not undermine the secular trend of improving relations. Just as George Bush has been reaffirming America's championing of free democracies around the world, India's prime minister, Manmohan Singh, has been redefining India's role in the world. Last month he made a speech positioning India no longer as a leader of the third world, nor of cold-war non-alignment, but as “proud to identify with those who defend the values of liberal democracy and secularism across the world”. America, says Mr Subrahmanyam, faced with a challenge to its supremacy from a rising China, has no choice but to “bet on India”. In the long run, say India's strategists, America needs India more than India needs it. Modesty has never played much part in Indian diplomacy.

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Economist.com WORLD ASIA

Myanmar

# Soft on forced labour

Mar 17th 2005 | YANGON
From The Economist print edition

**The UN may impose sanctions; the junta doesn't care**

NEXT week, critics of Myanmar's military regime will declare a great victory. Unless the junta has a sudden change of heart, the International Labour Organisation, a branch of the United Nations, will recommend that its member countries impose sanctions on Myanmar for failing to stamp out forced labour. But the victory is a hollow one. The fact that the regime has let its dispute with the ILO escalate this far suggests that it is becoming less susceptible to outside pressure, not more.

Most ILO members who are inclined to impose sanctions on Myanmar have already done so. America has the toughest ones: a ban on all imports and financial transactions. Any new measures, if forthcoming, are unlikely to top that. But the junta might easily have avoided the whole episode. It has been co-operating with the ILO on forced labour for the past three years, albeit fitfully. It recently tried three officials for press-ganging villagers into building roads—the first such prosecutions. Yet when four high-powered delegates from the ILO showed up in Yangon last month to try to jolly things along, Than Shwe, the top general, refused to meet them. Instead, various ministers lectured the visitors about the junta's many remarkable achievements. The envoys' reception was so offhand that they decided to cut their trip short and returned home in a huff.

Other critics have met with similar dismissiveness of late. The generals have not allowed Razali Ismail, the UN's special envoy, or Paulo Sérgio Pinheiro, its point man on human rights in Myanmar, to visit for over a year. Nor have they resumed talks on the restoration of democracy with Aung San Suu Kyi, the country's leading dissident and winner of the Nobel Peace Prize. Miss Suu Kyi remains under house arrest, while perhaps 1,200 more political prisoners languish in jail.

Instead, the regime is pressing ahead with the convention it initiated last year to draft a new constitution. These proceedings were farcical enough to begin with: the army handpicked the delegates and stipulated certain key points of the draft, including a prominent role for its own members in future parliaments and regional assemblies. Miss Suu Kyi's party, the National League for Democracy, which won Myanmar's most recent elections, in 1990, was not invited.

Now the generals are tightening the screws yet further. Just before the convention resumed last month, the authorities arrested six prominent politicians, all of them members of Myanmar's largest ethnic minority, the Shan. They included the leader of a Shan rebel group that had signed a ceasefire with the government, and the head of the Shan Nationalities League for Democracy, the party that came second in the 1990 election. Most observers interpreted the arrests as a warning to the only independent voices in the convention, the representatives of former rebel groups and ethnic minorities, not to rock the boat. One former rebel outfit, the Shan State Army-North, dropped out of the convention in protest.

In the meantime, a purge of officials loyal to Khin Nyunt, a senior member of the junta ousted last year, continues apace. Many generals, ministers and ambassadors have already been weeded out; lesser officials are now under scrutiny. Rumours hint at disputes among the top brass over these

appointments. But the one thing that all the members of the junta appear to have agreed on is firmly to ignore all external pressure.

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South Korea

# Banged to rights

Mar 17th 2005 | SEOUL
From The Economist print edition

**What has adultery got to do with the law?**

BENEATH its veneer of modernity, South Korea remains a country with deeply embedded Confucian roots. Nowhere is this truer than in its strait-laced attitudes towards sex—as Kim Ye-boon, a minor celebrity and former beauty queen, recently discovered, when she was arrested and charged with adultery. If found guilty of a crime deemed “prejudicial to morality”, Miss Kim and her married lover would have faced up to two years in prison.

This might surprise any casual visitor to Seoul, where massage parlours and the touts who hustle for them are easily seen. In Asia's third-largest economy, the sex industry accounts for over 4% of GDP, says the Korean Institute for Criminology. At current prices, that figure would be consistent with one in five South Korean men aged between 20 and 64 buying sex four times a month.

Periodic crackdowns on Seoul's sex shops indicate that the government is aware of a certain inconsistency. The city's pimps are feeling the pinch from the last blitz, launched in a blaze of publicity late last year. In part, it was prompted by the country's inclusion in a report by America's State Department on the traffic in sex slaves. Prostitutes protested against the crackdown, then fell silent—banking, no doubt, on business soon resuming.

Over the past 15 years, the Constitutional Court has repeatedly upheld convictions for adultery. Yet in its most recent ruling, four years ago, it also suggested that lawmakers might consider legalising sexual infidelity. Public opinion is divided on the matter.

This is especially so among women's groups. Some support the law, arguing that it furnishes estranged wives with a useful weapon for winning better terms in their divorce settlements. But though South Korean men commit adultery more often than women, it is husbands who are more likely to lodge a complaint of adultery against their spouses. So it is women who suffer most under the law—and also in the court of public opinion. Kim Ye-boon, the hapless beauty queen, was released after her lover's spouse withdrew her charges. But she has been publicly humiliated.

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Israel and its neighbours

# Is the turmoil good or bad for Israel?

Mar 17th 2005 | JERUSALEM
From The Economist print edition

AFP

**The Jewish state surveys its position in a changing region with a mixture of nervous uncertainty and cautious hope**

Get article background

TO HEAR some of its *bitkhonistim* (security types) talk, you might think that Israel, ever wary, was now in greater danger than ever. Though its neighbours have neither the strength nor the stomach for a fight these days, there are new threats of all kinds. The Palestinians' *intifada* has spawned a ruthless breed of militants, Hizbullah harries Israel from its south Lebanon encampments—army officers eagerly point out the Party of God's pale yellow flags fluttering a stone's throw from the border fence, pictured above—and the prospect of being nuked by Iran seems to loom ever larger.

Yet, says Shai Feldman, until recently head of Israel's Jaffee Centre for Strategic Studies and now at Brandeis University in the United States, “regionally, Israel is in a much better situation than it's ever been.” Its one-time foes are weaker militarily and economically, and it remains, for now, the region's only nuclear-armed state. Russia, despite a recent arms deal with Syria, is still more Israel's friend than the Arabs'—the reverse of the Soviet stance. Iraq, post-Saddam, no longer growls at Israel. And though America has recently made warning noises about Israeli settlement-building in the West Bank, it seems unlikely to apply serious pressure at least until after Israel leaves the Gaza strip, later this year.

Above all, there is, if not yet a peace process with the Palestinians, at least a thaw. And that has historically always made other Arab states warm to Israel, partly because doing so scores them points with the United States. Egypt, in particular, cold-shouldered Ariel Sharon early in his prime

ministership. But, frustrated with Yasser Arafat in his last two years as Palestinian leader, and frightened by the bombing at the Red Sea resort of Taba last October, Egypt is grabbing the chance “to be the handmaid of peace, and show its position in the Arab world,” says Shlomo Avineri, an Israeli political scientist.

It hosted the first summit between Mr Sharon and the Palestinian president, Mahmoud Abbas, last month. This week it held more truce talks between the Palestinian Authority and militant factions. In December it signed an agreement with Israel to create joint “qualified industrial zones”, which will enjoy free-trade terms with the United States, and is expected to sign a deal to sell gas to Israel. It will beef up its presence on the Gaza-Egypt border after Israel pulls out of Gaza later this year, and it promises to crack down on arms smugglers. To Hosni Mubarak, now aiming for his fifth presidential term, armed Islamists are nearly as much of a worry in Gaza as they are on home turf.

What unnerves Israel most is not the risks it knows but those it cannot predict. What next after Syria's withdrawal from Lebanon (see article), hastened by protests there against the killing of Rafik Hariri, the former prime minister? It is unlikely much to change Israel's relations with Syria, whose timid peace overtures over the past year or so, to curry favour with the United States, have been rebuffed: Israel is in no hurry to return to talks about giving back the Golan Heights, which it occupied in 1967. And though Syria is now under more international pressure than ever, Israel will not want to deal with two peace processes at once.

Hizbullah, though, is another matter. In one Israeli view, since it enjoys Syria's backing, the departure of its sponsor will surely weaken it. In the other, apparently espoused by Israel's national security adviser, Giora Eiland, Hizbullah enjoys strong support of its own, as shown by recent demonstrations in Beirut (balanced by equally massive anti-Syrian ones). Forget mere potshots across the border fence: released from Syria's thumb, Hizbullah might take more power democratically—a Lebanon-as-Iran scenario.

## Hopes of taming the extremists?

Yet even that may not be such a bad thing, for few Lebanese these days want trouble with Israel. “The more Hizbullah becomes part of the Lebanese political scene,” argues Mr Feldman, “the more the pressure will be not to continue the fight against Israel, but the opposite.” The party this week cautiously welcomed a suggestion from George Bush that it do just that.

Some Israelis apply a similar logic to Hamas, the main Islamist Palestinian party, which, like Hizbullah, built a solid base of support both for its militancy and its local welfare projects. With Palestinians tired of the *intifada*, Hamas's expected success in local elections this year could also push it towards more moderation.

That the *bitkhonistim* differ on these and other questions—such as how much to trust the Egyptians and which concessions to make to Mr Abbas—is a measure of the changing situation they face. The one thing they do agree on is that Iran is an existential threat: it could have nuclear weapons within three years, says Ephraim Kam, an Iran specialist at the Jaffee Centre. Though the chance of their being used is very small, the mere idea dents Israel's once boundless self-confidence.

So what to do? Diplomacy to halt Iran's nuclear plans has had little success. Last week America switched from stick to carrot, hinting at possible WTO membership. All agree that attacking Iran's facilities, as Israel did with an Iraqi reactor in 1981, would be far harder this time: they are better protected, more dispersed. But it is still plain that, if it becomes clear that Iran is producing nuclear fuel independently, then the final resort of an Israeli pre-emptive strike cannot be ruled

out.

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Lebanon and its media

# Battle of the airwaves

Mar 17th 2005 | BEIRUT AND CAIRO
From The Economist print edition

**Why the anti-Syrian opposition is winning the war for hearts and minds**

LAST week, half a million people gathered in Beirut to show support for Syria. This week, perhaps a million others shouted for the Syrians to go. Street democracy may be working, for now. Syria has abruptly stopped bluffing, pulled a good part of its army out of Lebanon, and promised to remove the rest fast. It has also scuttled chunks of the intelligence edifice that cast a long, dark shadow over its smaller neighbour. The Syrian-infiltrated Lebanese state is now desperately casting about for ways to survive the opposition wave.

But headcounts in the street are not the only thing to weigh against lingering Syrian control. If the Lebanese are, by the rough tally of crowd sizes, two-to-one in favour of change, the media greatly amplify this advantage. “We have no newspapers and only two TV stations,” moans Emile Lahoud, an MP and son of Lebanon's pro-Syrian president. By contrast, Lebanon's half-dozen other channels tilt strongly or slightly to the opposition.

It is not for want of trying that the pro-Syrians' voice is weak. It was at Syria's behest that licensing rules, introduced in the 1990s, reduced the number of private television and radio channels from scores to a handful. More recently, bogus lawsuits pushed by Syria's friends closed one surviving television station and nearly ruined another. This tilted the balance of air time more towards Syria—and frightened potential critics. Even so, the country's educated elite—the kind of people who work for and talk to the media—came to despise the corruption and police-state tactics that Syrian meddling has encouraged. And, to Syrian chagrin, the biggest press patron of all was Rafik Hariri, the billionaire politician whose assassination sparked the recent protests. He sponsored his own television channel and newspaper, and may have spent some $100m over the years, in gifts and share purchases, to keep dozens of favoured voices from falling silent.

Some accused him of buying off critics. Whatever the case, his investment is now paying off with a vengeance. Local coverage of his funeral, of protest rallies and of opposition politicians has been relentlessly dramatic. The media-savvy opposition, advised by Beirut's top advertising firms, has been quick to grab the limelight with catchy banners, slogans and gimmicks. “They have prettier girls,” concedes a Shia village headman.

For his part, Syria's president, Bashar Assad, moans that if cameras only “zoomed out”, the scale of anti-Syrian feeling would shrink to its true size. He might do well to reflect instead on his country's own state television monopoly. For hours after Mr Hariri's murder, Syrian television blithely ran cartoons, followed by a programme on the glories of Syria's archaeological ruins.

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Côte d'Ivoire

# On the brink

Mar 17th 2005 | ABIDJAN
From The Economist print edition

**If the French pull out, all-out war looms**

SINCE a failed coup in 2002, Côte d'Ivoire has been split. Rebels known as the New Forces control the northern half of the country, and dream of snatching the rest. President Laurent Gbagbo, who controls the south, makes no secret of his desire to crush them. The only thing keeping the two sides apart is a peacekeeping force of 6,000 UN blue helmets and 4,000 French troops. On April 4th, when their one-year mandate ends, there is a chance that the French will leave. That would probably mean renewed civil war.

France gets no credit for keeping the peace. Both sides believe that, but for the French, they would be running the whole country. Many southerners are convinced that France is plotting to re-colonise Côte d'Ivoire. Last November, after Mr Gbagbo's men had "accidentally" bombed a French base, killing nine French soldiers, the French responded by destroying the small Ivorian air force and seizing the airport. Tens of thousands of young Gbagbo supporters took to the streets, looting white businesses and homes, and forcing more than 8,000 westerners to flee.

Wild rumours spread. The rabble-rousing state broadcaster claimed that the main opposition leader was in a French armoured car, waiting to be installed as president. Huge and threatening crowds gathered to stop the imaginary putsch. In a number of clashes, the French killed more than 50 people. Angry Ivorians posted photos of the dead everywhere.

Starting this month, a pro-Gbagbo group called the Young Patriots is planning demonstrations to demand that the French leave. The Patriots' leader, Charles Blé Goudé, says he "will not be responsible for what happens to French soldiers" after the last rally, scheduled for April 2nd.

The spectre of Rwanda—where French troops failed to halt the genocide in 1994—haunts French decision-makers. At the same time, however, France is tiring of the thankless task of stopping its former colonial subjects from killing each other. In February, President Jacques Chirac said that the French force in Côte d'Ivoire, known as Licorne (Unicorn), would stay on after April only if the UN, African leaders and President Gbagbo asked it to. The UN and the African Union are sure to be in favour, but Mr Gbagbo is harder to read.

"The president has not yet decided what he will do," says Kadet Bertin, one of Mr Gbagbo's advisers. "But it is not important whether the French leave or stay. What matters to us is that those forces who are here go and disarm the rebels—they can't stay here without doing anything!"

That, though, would require a new mandate for the French and UN troops, who are in Côte

d'Ivoire to maintain the peace, but not to disarm either the rebels or the numerous pro-government militias. One of those militias attacked Logoualé, a rebel-held town, on February 28th. French and UN troops intervened, capturing 87 prisoners, and there are reports of at least 30 deaths.

Observers doubt that the UN force could keep order on its own. “It is obvious that all sides are only scared of the French,” says a diplomat in Abidjan, adding that Mr Gbagbo will probably ask the French to leave and then attack the rebels in the second quarter of this year.

The French are giving little away about their intentions. But if Mr Gbagbo tells them to go, Mr Chirac must either pull out or break his word. He could, conceivably, dodge the issue by integrating his troops into the multinational UN force. Or he could let what was once France's richest sub-Saharan colony slide into chaos.

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Economist.com WORLD AFRICA & MIDDLE EAST

South Africa

# Prejudging the judges

Mar 17th 2005 | JOHANNESBURG
From The Economist print edition

**Justice should not be colour-blind, says South Africa's government**

SHOULD colleagues congratulate or commiserate with Pius Langa? On March 11th, South Africa's president, Thabo Mbeki, nominated him to become chief justice when the incumbent, Arthur Chaskalson, retires in May. Mr Langa, who is widely respected, will be the first black to hold the office. He takes over amid a poisonous row about alleged racism and political interference in the justice system.

South Africa has admirably independent judges, but not all of them are happy. The top judge in Cape Town, John Hlophe, recently wrote a furious 43-page report, alleging that many of his white colleagues are racist. Some of his complaints sound petty: a few whites have snubbed him, he claims, and he dislikes hearing Afrikaans spoken in his chambers.

Other gripes are more serious. Black judges and lawyers are often publicly ridiculed by their fellows for mistakes, he says. In commercial cases, he observes, litigants often withdraw from court when they see a less experienced black judge sitting and opt instead for private arbitration by retired white judges.

This, he argues, is evidence of racial prejudice. His critics retort that it is evidence that many people doubt that judges promoted rapidly because of their race are as competent as they ought to be. The justice ministry worries that the rise in private arbitration means the legal system is being circumvented.

Black lawyers tend to back Mr Hlophe. South Africa's judiciary indeed remains largely white. One problem is that there are too few black lawyers with enough experience to become judges. Another is that the best black lawyers are reluctant to join the bench because the pay is so much lower. Elderly white judges have usually had plenty of time in private practice to amass a nest-egg. Black lawyers typically have not. And they tend to support more extended and poorer families.

Mr Hlophe wants special committees to deal with racists. White judges fear a witch-hunt, not least because Mr Hlophe's report coincides with calls from politicians for more government interference in the judicial system. The justice minister, Bridgette Mabandla, wants more senior black judges appointed fast. The ministry will soon produce a draft plan to make the judiciary better reflect the country's demographic balance.

In January the ruling party, the African National Congress (ANC), told judges to change their “mind-set” to comply with the wishes of “the masses” or risk “popular antagonism”. This threat was provoked by an ongoing court case between the government and pharmaceutical firms over drug prices. Two black judges (including Mr Hlophe) initially sided with the government; a white one backed the drug firms. The case reached the constitutional court this week, generating bitter comment that cultural and political differences between judges are placing an unbearable strain on the legal system.

Mr Langa must somehow defuse all this, while resisting executive meddling. Though once close to the ANC, he has proved his independence. In 2002 he ruled that the government was obliged to give anti-retroviral drugs to AIDS patients. Ministers fumed that unelected judges were prescribing health policy. Be that as it may, South Africa needs a chief judge who is prepared to make ministers fume.

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Central African Republic

# A sleazy poll

Mar 17th 2005 | KAMPALA
From The Economist print edition

**What used to be the Central African Empire is now a dodgy democracy**

AFP

**Hurrah for me, says Bozize**

AFTER voting for himself on March 13th, President François Bozize congratulated himself for establishing democracy in the Central African Republic. His grip on reality is perhaps weaker than his stranglehold on his country. Two years ago, when he seized power in a coup, he promised to hold elections but not to run in them.

A result will not be announced until the end of the month. Few expect Mr Bozize to lose, though his main opponent, another former coup leader called André Kolingba, might force a run-off. Mr Kolingba's supporters accuse the president of cheating. But the smattering of foreign observers, mainly from former French colonies, pronounced the poll free, reliable and fair.

“Of course they weren't really free and fair,” said one monitor, roaring with laughter. “Sometimes you journalists can be so naive.” It is unclear how bad the intimidation and ballot-stuffing actually were. Several news organisations, including *The Economist*, were barred from the country. According to western diplomats, France asked the monitors to monitor leniently.

Mr Bozize has long been popular in Paris. France disliked his predecessor, Ange-Félix Patassé, who spurned French tutelage and turned instead to Libya and a Congolese rebel group. This, plus the crooked incompetence of his regime, also made Mr Patassé unpopular with his people. When Mr Bozize swept into Bangui, the capital, crowds cheered. Corruption, however, continues and the country is all but bankrupt.

Unpaid public servants may have voted for Mr Bozize because they knew that foreign aid was to be unfrozen after the poll. Others may have backed him for fear he would stage another coup if he lost. Western countries want stability, not least because the country may have oil. America does not want to upset Chad's president, Idriss Déby, an ally in the war on terror, who backed Mr Bozize's coup. But Mr Déby's friends in the Sudanese government allegedly use Central Africa as a base from which to attack rebels in Darfur.

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Economist.com WORLD EUROPE

The French president

# Jacques Chirac, socialist

Mar 17th 2005 | PARIS
From The Economist print edition

Rex

**A veteran Gaullist politician, Jacques Chirac has in office turned into one of Europe's most left-wing leaders**

Get article background

WHEN France's president, Jacques Chirac, dropped in recently on José Luis Rodríguez Zapatero, Spain's Socialist prime minister, his host paid him a rather unusual compliment. “Some people may well wonder,” said Mr Zapatero, “whether Jacques Chirac really is a leader of the centre-right, compared with others that we know.” In recent months, the pair seem to have become inseparable, meeting for summits and congratulating each other on their shared vision. To many outside France, it might seem odd that Europe's longest-serving conservative leader is so keen to identify closely with a Spanish Socialist. Yet Mr Chirac's fondness for his new Spanish friend should perhaps not be that much of a surprise. For Mr Chirac himself is these days one of the most left-wing of Europe's leaders.

Consider Mr Chirac's credentials as a champion of the left. His recent proposal to create an “international solidarity levy” on international financial transactions or airline-ticket sales, so as to finance African development and the fight against AIDS, won him the acclaim of the third-world lobby. “Development is both the greatest challenge and the greatest urgency of our time,” he declared in a speech broadcast at the World Economic Forum in Davos in January, calling Africa's poverty “morally unacceptable”. Mr Chirac is also a certified *écolo* (green), having got his cherished environmental charter enshrined in France's constitution last month. This puts the right to live in a healthy environment on the same legal footing in France as human rights, setting the country up as a pioneer in environmental protection—and Mr Chirac as potential saviour of the planet.

The French president has no rivals as global spokesman on anti-Americanism, a doctrine that usually belongs to the left in Europe but in France has a long history on the Gaullist right as well. To this, he has added his own blend of anti-globalisation, globe-trotting with the likes of Brazil's President Luiz Inácio Lula da Silva, a former trade-union leader, and dispatching representatives to the World Social Forum. Moreover, with his Arabist foreign policy in the Middle East, and his defiant hostility to the war in Iraq, he seems to have a soft-left world outlook that would fit well on any university campus.

On economic matters, this is certainly no market-liberalising, right-wing government. In May, Mr Chirac will celebrate ten years in office. It is hard to detect what mark his decade has left. Admittedly, he shared five years (1997-2002) with a Socialist government, which introduced such policies as the 35-hour week. But even this is not something that Mr Chirac's present centre-right government, under Jean-Pierre Raffarin, has been in any rush to dismantle: its reforms have loosened the rules, not overturned them.

Mr Chirac has contined to resist EU efforts to liberalise the energy market. He is now blocking the services directive, which he said this week was “unacceptable” and should be “picked apart”. He has even reactivated an interventionist industrial policy. And he has a high spender's tendency to throw money at political problems, especially ones that spill out on to the street—one reason why France's budget deficit has widened sharply.

Only this week, Mr Chirac's government was busy yet again caving in to demands for public-sector pay rises after 600,000-1m protesters took to the streets. Having stood firm for a full three days, it promised to reopen wage talks, and did not rule out another increase in the minimum wage, after a rise of 5.8% last year. Even the left-leaning *Libération* could scarcely believe it: “The volte-face of the government, which is today proposing to open the coffers which it swore yesterday were empty, will prove right all the numerous unionists who believe that there is no point in discussing coolly and that social dialogue is a sham unless they turn up at the negotiating table with a loaded gun.”

Mr Chirac has not strayed entirely from centre-right territory. He campaigned for election in 2002 with a promise to cut income tax by a third, and this is still official policy. Yet the combined efforts of four successive finance ministers have secured only a modest 10% reduction. He is pressing ahead with privatisation too: his latest finance minister, Thierry Breton, has confirmed that Electricité de France and Gaz de France are being prepared for sale. But the right hardly has a monopoly on privatisation, a policy embraced in some ways just as fervently by the former Socialist government.

What does all this add up to? “Compared with the rest of the European right—Berlusconi, Merkel, Aznar—he is certainly different,” comments a leading French Socialist. “They are all both more liberal and more Atlanticist.” Mr Chirac's economic policy certainly puts him to the left of Britain's Tony Blair. Even Germany's Gerhard Schröder has done more to deregulate the labour market and reform welfare than Mr Chirac. His new chum, Mr Zapatero, is arguably his closest ideological ally now.

One explanation for Mr Chirac's embrace of a soft-left, statist, instinctively anti-capitalist creed could be that he is playing Mr Blair's post-ideological game of stealing the opposition's clothes ahead of the 2007 presidential election. A French presidential candidate needs broad electoral appeal in the run-off, and the country's political centre of gravity lies well to the left of Britain's, say.

Another explanation is that his variety of continental conservatism belongs to a social Gaullist tradition, which—like Christian Democracy—often defines itself precisely against liberalism. Under this doctrine, the language of “social cohesion” and “solidarity” belongs to the right as much as to

the left. In other words, Mr Chirac has not been liberalising simply because, as one adviser says, “he does not believe in untempered liberalism”.

Yet this may be to lend more coherence to Mr Chirac's policies than they deserve. More plausibly, exactly 40 years since he was first elected to public office, he is guided less by conviction than by a desire to keep the social peace and avoid confrontation. As prime minister in the late-1980s, Mr Chirac was seen as an energetic reformer. Age and power have tempered such zeal; consensus now matters more than change. At the EU summit next week to consider economic reforms, France will again be in the rearguard, not the vanguard. Despite GDP growth of only 2-2.5% this year, and unemployment of 10%, Mr Chirac's advisers argue that not much in the French model needs radical change. Try telling that to the jobless.

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Italy's economy

# Slowly to market

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**Suffering an acute loss of competitiveness**

NOT before time, Silvio Berlusconi's government last weekend proposed measures to enhance Italy's competitiveness, worth some €4 billion ($5 billion) in all. Economists have for years wondered how Italy's economy would fare inside the euro, since it could no longer devalue when the going got tough. More recently the worry has been how it will cope when faced with competition from emerging low-cost exporters like China. The answer to both questions is: badly.

In 2004 the economy grew by less than the euro-area average for the eighth time in nine years. A key factor holding it back was low exports, hit by a loss of competitiveness against not just America and Asia, but even Germany (see chart). Many Italian firms are still in traditional manufacturing areas that they should have abandoned the moment people began to talk of Asian tigers. That they did not has much to do with low spending on research and development, which also has much to do with Italy's high proportion of small businesses. In 2003, Italian spending on R&D as a share of GDP was barely half the EU average. In the same year the average number of workers per enterprise was just over four, the second-lowest figure in the EU.

Italy's competitiveness problems are deep-rooted, not just in the economy but in a culture that venerates the family and favours the proliferation of small, often inefficient, family firms. The government's new measures include inducements to get small companies to merge. They seek also to soften the impact of the bankruptcy laws, boost the use of information technology, and cut red tape.

Yet Italy's government is schizophrenic on these matters. The coalition has a more nationalistic, interventionist wing, led by the former neo-fascist National Alliance, alongside a supposedly more

liberal element consisting of the prime minister's Forza Italia party and the populist-regionalist Northern League. But Mr Berlusconi's own rhetoric is shot through with praise for family enterprise (as befits the founder of a family-run business empire).

As for the Northern League, it fast ditches its liberal principles if its voters' interests seem threatened. Many own or work for textile firms that are reeling from cheap Chinese exports after the ending of global quotas. The Northern League almost derailed the government's competitiveness package last week by demanding duties on Asian products that Italy is not allowed to impose, since trade policy is a matter for the EU. Mr Berlusconi mollified them by promising to raise their concerns in Brussels, and a minister was duly sent to see Peter Mandelson, the trade commissioner. This is depressing for anyone who wants Italy to thrive: the last thing it needs is another bout of protectionism.

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Italy and Iraq

# Arrivederci?

Mar 17th 2005 | ROME
From The Economist print edition

**The Italians plan to quit Iraq**

SILVIO BERLUSCONI provided a reminder this week that there are limits to the support that even the most pro-American of Europeans can give George Bush in Iraq. On March 15th he announced on television that Italy would start withdrawing its 3,300 soldiers in September. But, after a phone conversation with Mr Bush, Mr Berlusconi backtracked a day later: the September date was merely a “hope”, he said. Nevertheless, this was the latest sign that more governments are finding involvement in Iraq hard to handle: a first detachment of Dutch troops arrived back on March 14th, Ukraine began a withdrawal on March 15th, and Poland has already cut its contingent by almost a third.

Few people gave America more enthusiastic backing in Iraq than Mr Berlusconi. Italy contributed more soldiers than any European country bar Britain. Like Britain's Tony Blair, however, Mr Berlusconi has a general election to win. Italy's must be held by next spring. Both men have defied public opinion on their involvement in Iraq. Polls suggest that some 70% of Italians want their troops out. Yet crucially, and quite unlike Mr Blair, Italy's prime minister has to fight an opposition committed to withdrawal.

By shifting now, Mr Berlusconi has given himself time to get the last soldier out before the election campaign. He has also gained some ground for the next test of public opinion, when Italian voters elect governors in 14 of the 20 regions in early April. Many Italians, not only on the left, are still seething over the shooting earlier this month by American troops of a senior intelligence officer soon after he had helped to free an Italian hostage.

Mr Berlusconi was careful to leave himself room for manoeuvre, even before his talk with Mr Bush. He said the phase-out would be co-ordinated with Italy's allies. It is possible that Italy could find a way of following the lead of countries such as Poland and the Netherlands, which have withdrawn troops amid much ballyhoo, but then quietly returned many of them as “instructors”.

It was also clear that the prime minister had not consulted his ministers before his television announcement. Earlier the same day, his deputy (also the foreign minister), Gianfranco Fini, was quoted in *Le Point*, a French magazine, saying that the government “had no reason to withdraw the Italian troops in Iraq”. The defence minister, Antonio Martino, had been giving out a similar message.

Some advisers might also have liked a chance to warn Mr Berlusconi of the risk of seeming to follow the opposition's lead. But instead of ramming home the message that he had done just that, opposition leaders muddied it with complaints that the announcement should have been made in parliament. It remains to be seen whether the prime minister's later backtracking will do him more harm than good.

German laws

# Sonderbar

Mar 17th 2005 | BERLIN
From The Economist print edition

**Why Germany may be a bigot's hell but a smoker's heaven**

YOU might not visit Germany for its weather, but soon you could for its clubs, which may be the only ones in Europe where you can get in (a shortage of bouncers) and also smoke. Credit goes to a new anti-discrimination law, plus the absence of any anti-smoking law. Why is Germany so strict on discrimination but so lax on smoking?

The draft anti-discrimination law goes way beyond others in Europe. Everybody must be treated equally not just irrespective of race and ethnicity, but of ideology, mental or physical handicap, age and sexual identity. What is more, defendants will bear the burden of proof if victims sue. Thus any overzealous bouncers could become a liability if they always turn away Turks.

On smoking, by contrast, the approach is self-regulation, bucking the trend in Europe, where only a few countries still let people light up everywhere in restaurants and other public spaces. Germany's restaurant and hotel lobby has promised that half the seats in big restaurants and catering businesses (excluding clubs, cafés and bars) will be reserved for non-smokers by 2008. That hardly responds to health concerns over passive smoking.

History and culture may explain the two approaches. Since Germany once practised the ultimate form of discrimination, it is intent on being above reproach; and, while Hitler hated smoking and banned it in many places, the Allied troops often both smoked and distributed cigarettes. But politics also plays a role. Chancellor Gerhard Schröder wanted to give his left wing something after forcing through supposedly neo-liberal economic reforms; an anti-discrimination law was just the ticket. German tobacco firms are strong lobbyists, which explains why free food, drinks and cigarettes for journalists are on offer at political parties' conferences.

And then there is money. Anti-discrimination legislation costs the government nothing, but an anti-smoking law could be expensive: tobacco taxes brought in some *euro*14 billion ($18 billion) last year. The finance minister, Hans Eichel, is even trying to undo a decision to raise the tobacco tax. Previous rises made consumers smoke less, buy smuggled cigarettes or roll their own.

In any case, Germany may yet not go its own way on either front. Arguing that the anti-discrimination legislation will trigger lawsuits and cost jobs, the opposition wants to cut it back to EU standards; its leaders are making this a condition for a deal with Mr Schröder over further economic reforms. And Brussels is thinking of banning smoking in public spaces right across the EU. Now there's an initiative that could make Germans into Eurosceptics.

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Russia and Ukraine

# Making up is hard to do

Mar 17th 2005 | MOSCOW
From The Economist print edition

**Two presidents at odds, but still needing each other**

A PRAGMATIST who only picks fights he can win—or a bereaved nationalist, locked into a quixotic pursuit of Russia's lost empire? For most of his first term as Russia's president, Vladimir Putin seemed to be the first. But, after his crass support for the losing candidate in Ukraine's tumultuous elections, Mr Putin looked ill-informed, amateurish, even downright dangerous. His visit to Kiev this weekend will test how far he can now restore his previous pragmatic reputation.

His immediate goal will be to muster a bit more cordiality than he and Victor Yushchenko, Ukraine's new president, managed at a frosty meeting in Moscow in January. Mr Putin will need to clear his mind of excitable talk of “orange revolutions” in other bits of the former Soviet Union, even Russia itself (the flag of Pora, the youth movement in the vanguard of Ukraine's street protests, sometimes flutters at demonstrations in Moscow these days). He will need to rise above putative plans of Boris Berezovsky, a renegade oligarch given asylum by Britain, to move to Kiev. He must also pass over Mr Yushchenko's choice of Boris Nemtsov, a disgruntled Russian liberal, as an adviser.

Mr Putin's broader aim will be to stop Mr Yushchenko's desire for closer integration with the European Union compromising Ukraine's relations with Russia. So long as Ukraine's ambitions to join the EU remained more theoretical than real, they did not. But under Mr Yushchenko, whose strategy is to cultivate the conditions for an EU membership application without waiting for a nod from Brussels, the two allegiances seem sure to collide. Bold hopes for a single economic space comprising Russia, Ukraine, Belarus and Kazakhstan—a scheme to which Leonid Kuchma, Mr Yushchenko's predecessor, signed up—now look out of the question, even if some sort of free-trade zone may be plausible. The long-term future of Russia's Black Sea fleet, based in the Crimean port of Sebastopol, would also surely be called into question were Ukraine to join NATO.

Mr Putin may also inquire about the future of some other Russian assets. At a meeting on March 14th, Mr Yushchenko reportedly reassured a clutch of top Russian managers or “oligarchs” that their holdings in Ukraine would not be unfairly picked on in the government's review of dodgy Kuchma-era privatisations. (Russian investment in Ukraine is hard to measure precisely, since much arrives via third countries, but it is extensive.) Mr Yushchenko says only a few dozen companies will be involved; a few thousand, said Yulia Timoshenko, his prime minister. Mrs Timoshenko is still technically under investigation by Russian prosecutors over an old corruption case; her nomination did not please the Kremlin.

For much of his ten-year presidency, Mr Kuchma tried to cultivate both Russia and the West. Towards the end, however, the crutch that Mr Putin offered after Mr Kuchma was widely linked to the murder of Georgi Gongadze, a journalist, skewed Mr Kuchma's loyalty. Like the wrangle over reprivatisation, a fresh investigation into the Gongadze case appears now to be reaching a climax. On March 4th a former interior minister due to give evidence apparently shot himself in the head (twice). Rumours that Mr Kuchma is protected by a secret immunity deal are denied by Mr Yushchenko. Mr Kuchma's foreign-policy balance between east and west was also disturbed by

suspected arms dealings with Saddam Hussein (the troops he sent to Iraq to assuage the Americans began to return home this week).

One more mystery relevant to Mr Putin's visit also demands a nice balance between justice and political expedience: Mr Yushchenko's near-fatal poisoning last autumn. There have been persistent rumours of Russian involvement. But even if this could be proved—and, as in the Gongadze case, the Ukrainian authorities hint that they know more than they are prepared to say—Mr Yushchenko is unlikely to make a fuss. Paramount though the EU may now be, relations with Russia are still too important for grudge-bearing.

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Economist.com WORLD EUROPE

Greece's government

# Costas's crusade

Mar 17th 2005 | ATHENS
From The Economist print edition

**Fighting corruption in a land imbued with it**

AFP

**Great games, great kickbacks**

LAST March, Costas Karamanlis, just elected as Greek prime minister, shocked his countrymen by announcing that the country was “effectively run by five *davatzides* (pimps)”. His use of underworld slang was meant to discredit a group of businessmen whose cosy relationship with the previous Socialist government and local media bosses had given them an edge in winning public contracts worth over *euro*2 billion ($2.5 billion) a year in the run-up to the 2004 Olympics. A clean-up of public life, seen by most Greeks as deeply corrupt after many years of Socialist rule, has become a priority for Mr Karamanlis's centre-right government.

So far, the results are mixed. An audit ordered by Mr Karamanlis showed that the Socialists had fed the European Commission misleading figures to get into the euro. But the fiddling damaged the reputation of Mr Karamanlis's government too. The budget deficit, swollen by spending on the Olympics, went above 6% of GDP in 2004, over twice the ceiling set by the European Union's stability and growth pact. With Greece's economy now under close supervision by the commission, Mr Karamanlis has little room for manoeuvre on fiscal policy.

A parliamentary inquiry into allegations that Socialist officials received millions of dollars in kickbacks from middlemen working for big defence contractors has run out of steam for lack of documentary evidence. A new media law that bans big shareholders in newspapers and television stations (plus their relatives) from owning shares in companies that bid for public contracts, may conflict with EU law. Mr Karamanlis's critics, including the boss of Greece's confederation of industry, called the law “preposterous” and said that extra bureaucracy required to sort out shareholder relationships would put off foreign investors whom the government is keen to attract.

In other ways, though, Mr Karamanlis's clean-up campaign may be working. Anastasios

Papaligouras, the justice minister, is methodically wading through a heap of files on alleged bribe-taking by Greek judges. More than 20 senior judges are under investigation. The bank account of a jurist in Crete, who faced charges of bribe-taking and money laundering, held over *euro*50,0000 in transfers from a nightclub owner and from lawyers representing a drug-dealer. Several of the judges under suspicion seem to be linked to a trial-fixing ring organised by a Greek Orthodox priest with underworld connections. Other revelations of sexual misconduct by supposedly celibate bishops, leaked to right-wing newspaper and television journalists, have shocked public opinion and triggered debate over whether Orthodoxy should remain the established faith in Greece.

Plenty of other scandals have surfaced as well, ranging from match-fixing among leading Greek soccer clubs, to doctors taking bribes from patients to speed up surgery, to army officers being bribed to exempt entertainers from military service. Mr Karamanlis insists that his clean-up campaign will continue.“Greece must become a country where the law is observed at every level of society,” he declared on the anniversary of his New Democracy party's election win. Yet it remains open to question whether he and his party will succeed in rooting out corruption, which is deeply entrenched in Greek society.

Meanwhile, his crusade is at least keeping up Mr Karamanlis's approval ratings: one anniversary poll gave him a 15-point lead over George Papandreou, the Socialist leader. But it may also divert attention from other challenges, such as boosting tax revenues, creating more jobs and opening up markets (the state still controls 55% of the economy, a bigger slice than anywhere else in the EU). When boredom with corruption-bashing sets in, especially if it is seen not to deliver on its promises, the problems of the Greek economy may loom larger still.

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Economist.com WORLD EUROPE

Charlemagne

# Back to Bosnia

Mar 17th 2005
From The Economist print edition

**The European Union's biggest military operation, in a place of previous foreign-policy failure**

ON A snowy mountain pass in Bosnia this week, Italian *carabinieri* set up a road-block to check passing vehicles for contraband. Resplendent in their dark-blue uniforms with red piping—to which many had added the personal touch of a goatee beard and wrap-round dark glasses—the Italians made a striking sight. But to the politically attuned observer, the most significant part of their get-up was the badges on their arms, which bore the yellow stars on a blue background of the European Union. Bosnia, the scene of perhaps the EU's biggest foreign-policy humiliation, is now the venue for the biggest test so far of its military ambitions. Last December, a 7,000-strong force under EU command, known as EUFOR, quietly took over control of peacekeeping operations in Bosnia from NATO.

When EUFOR got going, Geoff Hoon, Britain's defence secretary, declared that “Bosnia is a demonstration in practice that this [EU defence policy] can work.” Such a demonstration is devoutly wished for in Brussels, where there is a gloomy awareness that, for all the energy and resources devoted to efforts to develop the EU's global role, its common foreign and security policy continues to suffer from one troubling flaw: a tendency to collapse in time of crisis. The division between “old” and “new” Europe that opened up over Iraq is the most recent example. But the memory that really haunts the EU is its ignominious failure to deal with the Balkan wars in the 1990s.

When Yugoslavia started to break up in 1990, the EU's first response was to try to bribe its constituent elements to stay together, and to insist that Brussels would act as a stabilising force. As luck would have it, the man in temporary charge of EU foreign policy in mid-1991 was Jacques Poos, foreign minister of Luxembourg, whose assertion that the Yugoslav crisis was “the hour of Europe”, not of America, was swiftly exposed as empty and hubristic. European efforts to control the conflict reached their nadir in 1995, when Dutch UN peacekeepers failed to prevent the massacre of some 7,500 Bosnian Muslims by Bosnian-Serb forces at Srebrenica. In the end it took an American-led military intervention by NATO to end the conflict. Symbolically enough, the accords that ended the Bosnian war were negotiated not in Brussels, but in Dayton, Ohio.

Almost a decade after Srebrenica, the EU is now trying again in Bosnia. It could be argued that the switch from NATO to EUFOR is more cosmetic than real. Although a large contingent of American troops has been replaced by Finns, some 80% of EUFOR's troops previously served in the NATO force. They simply took off their old NATO badges and replaced them with EU insignia. Nor has NATO left Bosnia completely; it retains a small force under an American general, and it even shares a headquarters building and facilities with EUFOR.

Even so, many Bosnian Muslims worry that the change from NATO to the EU could prove all too real if a fresh confrontation were once again to build. Senior European diplomats in Sarajevo admit that the Bosniaks, as they are known, regard the United States as a much more reliable protector than the EU. They were correspondingly wary about seeing America's military presence scaled

back. The Americans themselves are wary for different reasons. Although their military commitments elsewhere mean that it is helpful if the Europeans take over in the Balkans, American policymakers do not like anything that might seem like a European effort to downgrade NATO.

As a result, General David Leakey, the commander of EUFOR, has a double job of reassurance on his hands. As a Briton who served with the NATO mission in Bosnia, he is well placed to reassure the Americans that EUFOR intends to work with NATO, rather than shove it aside. And as for Bosniak fears that Europe might fail them once again, General Leakey argues that it is highly unlikely that conflict will break out once again—but adds firmly that, if it does, “we could cope.”

## The carrot of membership

The deployment of EUFOR is just one part of an overall strategy to stabilise the Balkans. The EU has made clear that, in the long run, all the countries of the Balkans can aspire to membership of its club, with all the stability and prosperity that it is assumed will flow from that. But before they get anywhere near that goal, all the Balkan countries have much work to do. Bosnia suffers from (official) unemployment of 45% and chronic organised crime. The final political status of Kosovo has yet to be determined. And all countries in the region have been told that they must hand over any suspects indicted by the war-crimes tribunal in The Hague before they can begin membership talks with the EU. This week Croatia was dealt a bitter blow, when the previously planned start of its membership talks was deferred indefinitely, because it has failed to hand over Ante Gotovina, a former general wanted by the tribunal.

In recent weeks, a growing number of suspected war criminals have indeed been handed over from across the Balkans. EU officials see this as a demonstration of how far countries will go to pursue the holy grail of EU membership. Olli Rehn, the European commissioner for enlargement, promises that he will make the prospect of eventual membership for all the countries of the Balkans “ever more real and tangible” over the next two years. Even in Bosnia, a country that remains bitterly divided, both emotionally and administratively, between Serb-, Muslim- and Croat-dominated areas, almost all citizens respond positively to the idea of EU membership.

Whether western Europeans, already suffering from enlargement fatigue, are ready to welcome a country as poor and troubled as Bosnia, must be an open question. Indeed the biggest risk now is that, by holding out the prospect of eventual membership, the European Union may, yet again, be making Bosnia a promise that it will find hard to keep.

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The budget

# And on to the election

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From The Economist print edition

Reuters

**Gordon Brown made the best of a difficult business**

BEFORE the budget which Gordon Brown presented on March 16th, many in the Labour Party hoped that the chancellor would thunder to the rescue of their faltering election campaign. But Mr Brown, hemmed in by the deficit he has built up over the past three years, did not have the freedom to make grand gestures. Instead, he had three, fairly modest, aims.

First, he wanted to put the economy at the centre of the election battle and to remind voters of its success while he has been in charge of the Treasury. Second, he wished to target disaffected Labour voters with a few modest electoral sweeteners. Third, he wanted to allay worries about a tax rise after the general election. He succeeded with the first, was quite effective with the second but had a less convincing case to make on the third.

Mr Brown does not do modesty, least of all about the economy. In his last budget he claimed that Britain was enjoying its longest period of sustained economic growth for more than 200 years. Now he has extended this back to 1701. The vainglory might seem absurd, but it was there to drive home a political point about the stability of the economy while he has been chancellor.

Mr Brown's boasts about the economy did not end there. He used his speech to remind voters how low inflation has been for the past eight years. And he highlighted the drop in unemployment. Britain, he claimed, now had “the best combination of low inflation, high employment and rising living standards in a generation”.

There were good electoral reasons for Mr Brown to trumpet his economic prowess. According to

Mark Gill, head of political research at MORI, a polling organisation, the strength of the economy is one of the main reasons for Labour's continuing lead in the polls. A recent poll by MORI found that among voters highlighting the importance of the economy, 42% said that Labour had the best policies compared with 24% who preferred the Tories'.

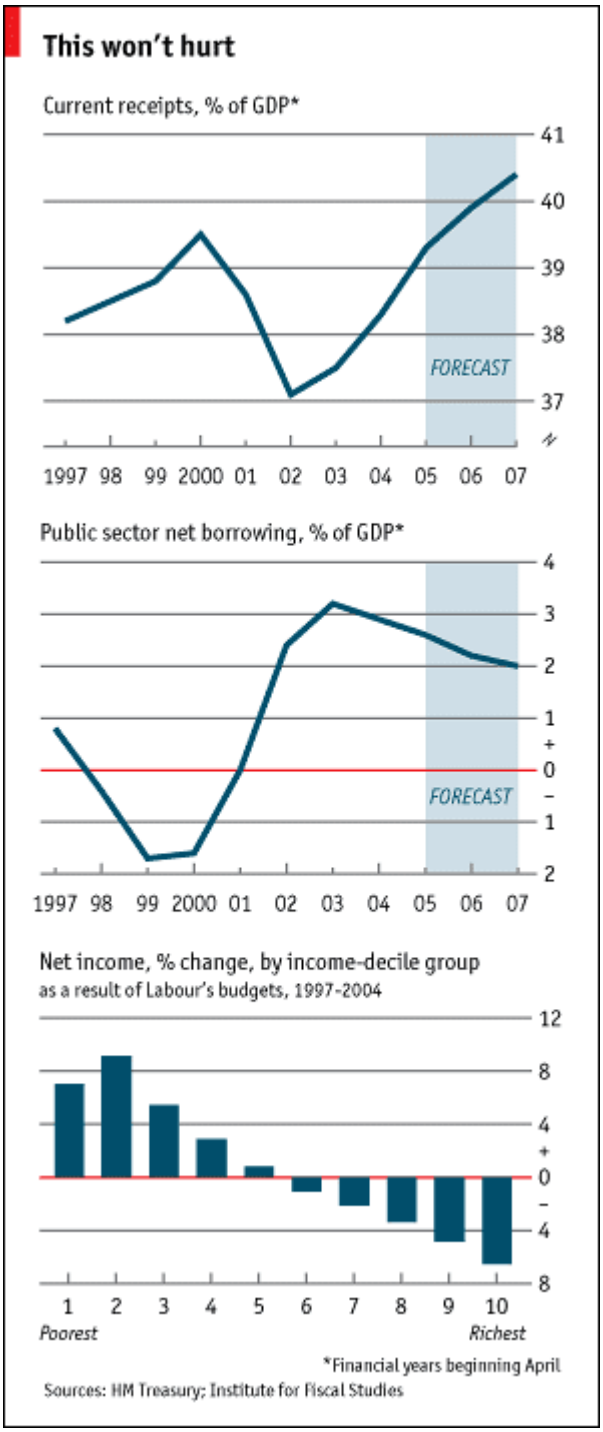
Yet according to John Curtice, a psephologist at Strathclyde University, one of Labour's worries in the election campaign is that its voting support is softer and less committed than the Conservatives'. These voters need to be enthused, he says, and to be given reasons to vote; which was the chancellor's second aim in his budget.

The way Mr Brown chose to do that was by making some carefully targeted concessions. Low-to-middle-income families will benefit from higher payments for children under the child tax credit. The measure is squarely directed at the poorest half of families, points out Mike Brewer of the Institute for Fiscal Studies.

Another key target group for Labour is pensioners, both because there are a lot of them and also because they are much more likely to vote than younger people. Mr Brown sought to head off their discontent over council-tax bills, which have increased sharply over the past few years. Pensioner households that have to pay this unpopular property tax will get a special relief of £200 ($380) in the fiscal year starting in April.

Another unpopular property tax is stamp duty, which is paid by house-purchasers. Mr Brown doubled the threshold at which the starting rate of 1% becomes payable (on the whole purchase price), from £60,000 to £120,000. According to Ed Stansfield of Capital Economics, an economic consultancy, the change will benefit about 300,000 home-buyers, mainly in the northern parts of the country. However, aspiring purchasers in London and the south-east are not likely to be impressed: the average first-time buyer there has already to pay more than £120,000.

Mr Brown's third task was to counter the Conservatives' claim that a third-term Labour government will put up taxes in a post-election budget. The Tories say that the chancellor has form. They point to the tax-raising budget in 2002 that followed the giveaways in his pre-election budget four years ago.




The chancellor shored up his position against this line of attack by announcing a neutral budget. Indeed the overall impact of his measures was a marginal tightening in fiscal policy. Mr Brown limited the scale of his handouts, and he financed them by raising other taxes, mainly on North Sea oil producers.

This was smart politics, but it may not be smart enough. Mr Brown's budget came at the end of a year in which the government has run a deficit of £34.4 billion—2.9% of GDP. His fiscal sums over the next few years add up only if there is a substantial increase in the tax take. The Treasury is forecasting that total revenues will rise from 38.3% of GDP in 2004-05 to 40.4% in 2007-08 (see chart). Crucially, this rise in the tax burden is supposed to occur without the pain of tax-raising

measures.

This seems unrealistic to most independent observers. John Hawksworth, an economist at PWC, an accountancy firm, is sceptical that corporation-tax revenues will grow as fast in 2005-06 as the Treasury expects. The general view is that taxes will have to be hoisted by at least £10 billion in order to mend Britain's public finances.

Mr Brown has been a lucky chancellor in many ways, but he has also pushed his luck. The result has been a string of deficits that have taken the gloss off his fiscal record. But in the general election that may not much matter. Voters are more likely to judge the chancellor on the economy's sound performance than on the extra taxes they may have to pay next year.

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Abortion and politics

# The foetal position

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From The Economist print edition

**Why abortion will not become a big political issue**

SPL

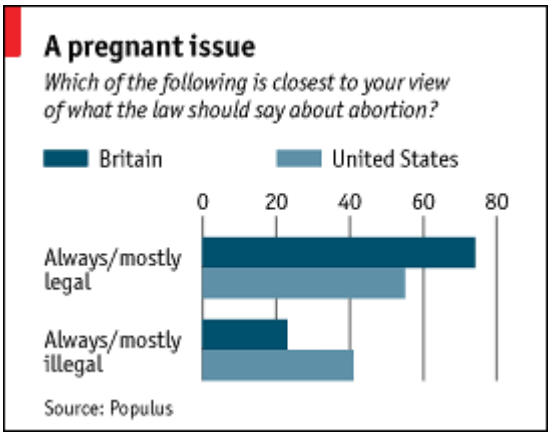
**Is it a life?**

MICHAEL HOWARD, the Conservative Party leader, had an intimate chat with the readers of *Cosmopolitan*, a magazine that offers young women advice on how to get their dream man. Last week over breakfast, in the interview, Mr Howard said that he would support a reduction in the outer limit at which women can have an abortion, from 24 to 20 weeks. It seems unlikely that this will lead to commitment at the ballot box from *Cosmo*'s fickle readers: the same issue offered advice on "how to date 8 men at once—and get away with it." But Mr Howard's stance on abortion became a bigger deal when it was welcomed by Cardinal Cormac Murphy-O'Connor, the most senior representative of the Catholic church in Britain. Is Britain, wondered journalists hunting for ways to enliven reporting on the dreary pre-election campaign, about to become like America, where Republicans have turned distaste for abortion into a vote-winner?

Photography, curiously, has recently revived discussion of the morality of abortion. New ways of taking pictures of foetuses in the womb have showed foetuses younger than 24 weeks doing the sorts of things that babies do, and ones far younger than that (like the 12-week-old in the picture above) looking like human beings. Combined with medical advances that have lowered the age at which babies can survive, these have been far more influential than scientific studies into when a foetus feels pain, and have led to several calls to reduce the 24-week limit. Lord Steel, who when a Liberal MP introduced the 1967 law that decriminalised abortion, has already added his voice to them. Despite this, abortion is unlikely to become a big political issue in Britain.

That's partly because British churches are less powerful than their American equivalents. Religion in Britain is a minority, mostly middle-class, preoccupation. And polling indicates that middle-class voters as a whole are the least hostile to abortion. But even among the 1.6m Catholics who regularly attend mass, support for abortion is in fact quite high, according to Christian Research. Only 35% of Catholic voters in the last election said that abortion is wrong in almost all circumstances, in research performed for the British Social Attitudes survey. And among Muslim voters, abortion is "not a priority", according to the Muslim Council of Britain.

As a result, abortion does not have the same political salience in Britain as in America. Whereas more than a fifth of voters in last year's presidential election told pollsters that moral values formed the top issue for them, in Britain only 6% currently say that morality is the most important political issue. And in the United States, attitudes to abortion are a litmus test of a candidate's moral values, while in Britain, political morality tends to be less about personal issues and more about being careful with the environment and kind to the poor.




So none of the parties are keen to position themselves as the pro- or anti-abortion camp. In previous votes, MPs have been left to search their own consciences without guidance from party whips. Though Britain did briefly have a pro-life party, it was disbanded in December, citing the difficulty of complying with the (rather undemanding) requirements of the Electoral Commission, which regulates political parties. Tories praying for a short cut to Republican-style success will have to look elsewhere.

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Birdwatching

# Starling-struck

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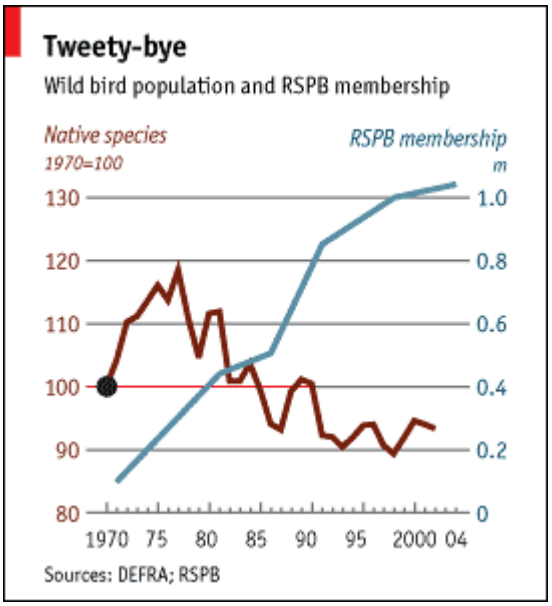
**Why birds are making so many Brits twitch with excitement**

WHICH organisation, founded by a group of Manchester ladies worried about the use of feathers in the hat trade, has more members than the three main political parties in Britain put together? The Royal Society for the Protection of Birds (RSPB), which was created to publicise the plight of egrets and great crested grebes, is by far the largest organisation of its type in the world, with over 1m members. Not content with lobbying for birds, the RSPB also runs 30 large bird sanctuaries in Britain, and is in the middle of creating a big new one in Cambridgeshire. The reasons for the RSPB's anomalous success—a mixture of geography, history and plain happenstance—illustrate some ways in which Britain is different.




First, Britain has little spare countryside for birds to flit around in. In France, where hunters have been known to demonstrate for their right to shoot migrating birds, the notion that bird habitats could disappear seems laughable: there's just so much space. In densely populated Britain, where there are 246 people per square kilometre, compared with 110 in France, the spare land tends to be used for agriculture. Some birds live happily with that. But others have found intensive farming impossible to cope with, and the number of species has declined. Shrinking numbers get birds publicity, so there may be a causal relationship between their declining numbers and growing popularity (see chart).

Second, Britons are atypically enthusiastic about animals. Last weekend, around 5m tuned in to watch Crufts, a competition for dogs which involves manicured pooches trotting around an astroturf arena, interspersed with heart-warming tales about hero dogs rescuing people. When it

comes to getting people to fork out, animal charities do better than charities for the blind, the deaf and the elderly put together. In France, schoolchildren sing a nursery rhyme encouraging them to pluck feathers from a lark. A tiny tot doing the same in Britain would probably be referred to the social services.

Third, Britain's geography makes it a particularly eventful place for bird-lovers. With one toe dipped in the Atlantic and another in the North Sea, Britain is a refuge for birds that get blown off course while migrating. The Isles of Scilly (off the south-west coast) can snare birds from Bermuda, while Fair Isle (off the north-eastern tip) gets visits from birds that belong in Siberia. Of the 400 different birds that a dedicated birdwatcher may hope to see in Britain and Ireland, only 220 are regular residents. The arrival of a rare one is a little like a visit from a movie star: in Hollywood a sighting barely interrupts the slurping of a milk-shake; in Sheffield it would stop traffic.

A whole subculture—that of the twitcher, as the most dedicated birdwatchers are known, to the annoyance of some of them—has grown up around these celebrity appearances. There are a few thousand twitchers in Britain, according to Stephen Moss, author of a social history of birdwatching. Alerted by pagers or e-mail, they will travel long distances to see a rare bird. Like all successful subcultures, twitching has its own rules, language and demi-gods. A “dip” is a failed “twitch”, meaning that the bird flew off before the twitcher arrived, preventing him from “ticking”, or recording, it. A UTV (untickable view) refers to a sighting too fleeting or hazy to be counted. “Suppression”, which is when news of a rare bird's arrival is kept quiet until after it has left, is a sin. Those who dedicate themselves to twitching can hope to join the 400 Club, whose members have all seen at least that number of species in Britain and Ireland.

The reasons why twitching appeals to white British males (there are few female or ethnic-minority twitchers) are not clear. Popular explanations include the Protestant work ethic (people feel guilty about lying around doing nothing, and so fill their leisure time with pseudo-useful things), Freudian psychology (a repressed male sexual urge leads to compulsive behaviour) and neuro psychology (type-S brains, more common among men, like making lists and cataloguing things; type-E brains, more common among women, don't). If the Freudians are right, perhaps twitching is just trainspotting for the post-industrial age.

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Red tape

# It's a start

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From The Economist print edition

**New plans to cut red tape address only part of the problem**

NO MATTER how short of cash they are, chancellors always find a little for electorally important groups. But in his ninth budget, Gordon Brown was wooing not just pensioners and first-time buyers, but businessmen as well. He endorsed the conclusions of two reports designed to deal with their biggest complaint—the proliferation under Labour of rules, regulations and red tape.

The first was from the Better Regulation Task Force (BRTF), which recommended copying a Dutch scheme to measure the administrative burden that government rules impose on firms. Armed with an estimate of the size of the problem, it said, ministers could then go about reducing it. Mr Brown stopped short of setting a government-wide target for cutting paperwork (the Dutch have pledged to reduce costs by 25% over four years), instead promising targets for individual departments.

A second report, the Hampton Review, suggested specific policies. It recommended merging 31 government inspection agencies (such as the Environment Agency and the British Potato Council) into seven larger bodies. And it proposed that inspections should be risk-based, with well-behaved firms being checked less often than miscreants.

Although promises to cut red tape have a familiar ring, business organisations gave the proposals a wary welcome. “One is always slightly cynical about promises of deregulation,” says Graham Leach of the Institute of Directors. “But, having said that, this does look like a serious plan.”

But Mr Brown's scheme, which focuses exclusively on administrative costs, addresses only part of the problem. Cutting down on box-ticking and form-filling will help reduce costs, but leaves government policy, the source of most of the regulatory burden, untouched. Businesses are fiercely opposed to government plans to extend parental leave and boost the minimum wage. Ministers are willing to cut the amount of paperwork that firms have to do, but not the number of rules they have to follow: “The government has made a commitment that regulatory outcomes will not be affected,” says a Treasury spokesman.

There are other worries, too. In the Netherlands, the government's deregulation policy is co-ordinated by an independent body, but Mr Brown has decided to give that responsibility to the Cabinet Office. And the calculation used by the Dutch to assess the level of regulatory burden relies on self-assessment by firms, which may overstate the true cost. Nor is it clear if the system has worked: it was introduced in 2003, but few of its benefits are expected to show up until this year or next.

There are also questions over how well co-ordinated the government's policies are. Rationalisation is a popular strategy at the moment: in addition to merging the various inspection bodies, the government has plans to weld the Inland Revenue and Customs and Excise into a single entity. The Department of Trade and Industry recently reduced the number of business-support schemes it runs from well over 100 to just ten.

But, oddly, this logic does not seem to apply to the bodies charged with regulating the regulations. Britain has three different public bodies that deal with red tape: the BRTF, the Regulatory Impact Unit (RIU) and the prime minister's Panel for Regulatory Accountability (PRA). The names will change next year, with the BRTF being replaced by the Better Regulation Commission and the RIU by the Better Regulation Executive. But the numbers won't, so Britain will still have three different deregulatory outfits, all of them working towards the same goal.

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Crime

# When policing doesn't pay

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**Separating criminals from their cash is proving difficult, and expensive**

IN AUGUST 2003, a visitor to the Chelmsford music festival unwisely sold a small amount of ecstasy to two undercover police officers. Although easy to prove in court, the crime was not very profitable, so the guilty man may have been surprised to learn that prosecutors were attempting to seize his home. Under English law, they did not have to prove that his wealth derived from drug dealing, merely that he had a "criminal lifestyle". One year and several court hearings later, the two sides settled on a payment of £5,000.

It wasn't much, considering the potency of Britain's asset recovery laws. The Proceeds of Crime Act (POCA), which came into force two years ago, gives police and the courts extraordinary powers to seize ill-gotten gains even when no crime is proved. The Act also weighs heavily on banks and lawyers, who are required to report all dodgy-seeming activities by their clients. "It's a good way of making criminals' lives unpleasant," says Jane Earl, head of the Assets Recovery Agency. So far, though, it has not been a cost-effective way of fighting crime.

Last year, the forces of law and order confiscated £39m in criminal assets. Not bad (two years earlier, half as much was seized) but it was hardly pure profit. Extra funding for the Crown Prosecution Service and the new Assets Recovery Agency totalled more than £20m. The new reporting requirements cost businesses and lawyers perhaps £90m a year, according to a 2003 report by KPMG, an accounting firm. Other drains included the police, who launched 6,000 financial investigations last year, and the courts. The legal costs of asset recovery are unknowable, but can far exceed the expense of securing convictions, as they did in the Chelmsford case.

That the new powers are proving so unprofitable does not necessarily mean they are useless—they may be discouraging crimes that would otherwise have taken place. Yet it seems odd that such powerful tools are hoovering up so little cash.

The laws' wide sweep may be part of the problem. Any asset or transaction that seems suspicious, no matter how trivial, must be reported to the National Criminal Intelligence Service. Last year, 155,000 reports were dutifully sent in—up from 18,000 in 2000. That is too many to sift.

When cases do come to court, POCA's toughness can, oddly, make recovery more difficult. The laws target proceeds, not profits, so somebody who obtains ten £50,000 kilos of heroin in a year and sells them at a 20% mark-up can be ordered to pay £600,000—money he is unlikely to possess. That helps to explain why, last year, six times as much was owed as was collected. Another difficulty is that defendants who possess Ferraris and Spanish villas are not entitled to legal aid, even if those assets have been frozen. Nor can lawyers be paid from funds that are presumed to derive from crime. The double bind has led to the postponement of some trials, increasing the collection bill further.

Dave Norman, of London's Metropolitan Police, says that the most serious criminals are finding

ways around the new laws. A raid on one suspect's house turned up a copy of the Proceeds of Crime Act. Drug traffickers who need to get money out of Britain have discovered the virtues of the euro, which comes in a handy €500 note. They are also investing in foreign property. Ian Watson, an investigation officer at Customs and Excise, says that cash seizures of up to £100,000 were common two or three years ago. Since then, hauls have declined. “You used to see bags of cash in the cabs of trucks,” he says. “Now they are moving smaller amounts and hiding them better.”

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University admissions

# Stuff, and nonsense

Mar 17th 2005
From The Economist print edition

**Universities do not discriminate against applicants from independent schools as much as is widely believed**

IT IS a dreadful thought to middle-class Britons who scrimp to send their children to the fee-paying schools that educate 7% of the country's children but produce around half of those with really good exam grades: their sacrifices may be not just futile, but counterproductive. Newspapers and dinner-party conversations are rife with stories of universities systematically discriminating against applicants from independent schools and running secret quotas for disadvantaged state-school applicants to meet government demands for a huge increase in poor students and a cut in the proportion that come from fee-paying schools.

There's something, but not a great deal, in all this. A bit of money and effort is going into encouraging bright children from poor backgrounds to apply to top universities, but, for the moment at least, the scare stories are largely nonsense.

The real story is that the government has given up on mandatory quotas, and no longer believes that the admissions system at top universities is biased in favour of the posh and well educated. A lengthy review of university admissions last year, endorsed by the government, concluded that applicants should be treated as individuals, not as representatives of a group, and that universities were the best placed to decide on who to take.

There are two chunks of policy still at work, though. The first is a series of small bribes to encourage universities to recruit students from disadvantaged backgrounds (those with no family tradition of going to university, for example) and also to keep them studying once they start. Of the £3.96 billion paid to universities for teaching by the Higher Education Funding Council (HEFCE), £277m (7%) is earmarked for this. It includes £37m for extra undergraduate recruitment costs, and £160m for retention. Experience shows that spending on getting students through their first year pays off, HEFCE says; they are unlikely to drop out thereafter. That's certainly discrimination—universities that shun such students get less money than those that take lots—but on a scale so small that it's hard to see it as full-blown class warfare.

The second front is universities' new duty to say publicly what they are doing to “widen participation”. To charge the new £3,000 tuition fees after 2006, universities must give a written plan to the new Access Regulator (nicknamed Offtoff) showing what they are doing to encourage applications from disadvantaged groups: chiefly in marketing their courses, in making sure that admissions are fair, and in providing bursaries and other support. This week the regulator announced that the total cash pledged had reached £300m.

The controversial issue here is what the admissions target should be. Not all state-school children are poor, and not all those from fee-paying schools are rich—indeed half the working-class undergraduates at Cambridge come from independent schools. HEFCE produces a bunch of “benchmarks”, designed, it says, solely to help compare performance. If used as targets, these could indeed hugely distort admissions procedures.

But that's not happening. Cambridge, for example, simply rejects, reasonably, the benchmark based on exam grades (which equates a handful of good results with many indifferent ones). On another benchmark, it aims to raise its current 13% of students from the bottom social classes to “a range between 13% and 14%” in the next four years. No tumbrils there.

Some universities have set themselves more ambitious targets—but there is no automatic sanction if they fail to meet them. And academics do have the freedom to experiment. The London School of Economics has piloted a scheme, covering less than 5% of its British and EU undergraduate places, to see whether applicants with good grades from bad schools outperform those with similar grades from good schools. Oh, those scary Fabians.

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Bagehot

# Study in Brown

Mar 17th 2005
From The Economist print edition

**Gordon Brown's budget was both a platform for a Labour victory and an assertion of his claim to the leadership**

IT DEPENDS on which camp you belong to—the prime minister's or the chancellor's. Until this week's budget, Gordon Brown had either been pushed by Tony Blair to the sidelines of Labour's election campaign or, piqued by the return of Alan Milburn to the cabinet, was sulkily refusing to pull his weight.

The truth lies somewhere in between. Mr Blair has been determined to inject this election manifesto with the reformist zeal he thinks the last one lacked, even if that has meant putting Mr Brown's nose out of joint. He yearns to leave as his legacy a welfare state transformed by diversity of provision and consumer choice, fit for the 21st century. He fears sabotage from Mr Brown because of the chancellor's doubts about the role of markets in providing public services. But he also realises that Mr Brown and the economy he has presided over are his strongest cards in securing a third term. Two weeks ago, Mr Blair described Mr Brown as “the best chancellor this country has had for 100 years”. Despite everything, he means it.

Although Mr Brown could sulk for Britain, his mood is mainly one of frustration. In recent weeks, he has travelled to foreign lands, mused about the nature of Britishness and got on with preparing the budget. He has appeared almost above the fray as Labour's lumbering campaign has taken hit after hit from the Tories' surprisingly effective guerrilla tactics. He is not surprised that with Mr Milburn in charge, Labour is faltering and he wants to help. But knowing that he has never been closer to realising his ambition of succeeding Mr Blair, his pride tells him it should be on his own terms. So his response to pleas to become more involved has so far been guarded.

However, he also knows that the prize will be hollow unless Labour's hegemony can be extended by winning at least one and preferably two elections after this one. That may depend on not only delivering another thumping majority in May, but also securing a victory against the odds in next year's referendum on the European constitution. Some of Mr Brown's more myopic admirers may relish the prospect of the prime minister getting his come-uppance. But Mr Brown thinks long term, and he knows that once electoral decline sets in for a party, it is almost impossible to reverse.

In short, whatever their differences, Mr Blair and Mr Brown are bound together as closely as ever. But something has changed. For all Mr Blair's remarkable resilience and his undiminished belief that there is still important work for him to do, there is a feeling in the air of power gradually ebbing from one man to the other. The contrast between the past two weeks in Parliament illustrates that sharply.

Mr Brown's performance in presenting his ninth budget was typical. Never mind the exaggerated distinction between Labour's “investment” in public services and the Tories' intended “cuts”; the modesty of the handouts aimed at appeasing this or that interest group, crafted to give Labour MPs something to use against the promises of their opponents; the weakening of the public

finances that Mr Brown has presided over since 2001 and which boxed him in more than he will admit. What mattered was Mr Brown's reassuring solidity, his utter confidence and his tank-like momentum. This was a budget above all designed to demonstrate one thing: Mr Brown's command. The chancellor was, in effect, saying: whatever else may have gone wrong with this government (fill in the dots), the one thing that you can't complain about is the strong and stable economy I have so meticulously nurtured.

This budget was not just a trumpet-call for Labour's election victory; it was also the background music for Mr Brown's eventual ascension to the premiership. The contrast with the trouble Mr Blair had over the anti-terrorism bill last week was striking.

Last week's parliamentary revolt showed something very important. Mr Blair has lost the thing that made him extraordinary—his political touch. His strength used to be his ability to charm and seduce people into his big tent. These days, the tent has shrunk and the prime minister cuts a lonely figure who seems almost to relish his unpopularity.

The concession that eventually allowed the anti-terrorism bill to pass—an agreement that MPs would have the chance to review its workings within 12 months—could have been reached a week earlier. Mr Blair calculated that by hanging tough, he would make the Tories look weak. But his macho posturing probably ended up repelling more people than it impressed, while unhelpfully reminding them of the trust issues raised by the exploitation of faulty intelligence over Iraq.

Meanwhile, his encounters with disillusioned female voters in television studios, designed to demonstrate humility and a willingness to listen, are increasingly looking like a bad idea. He has appeared tetchy in the face of frequently trite criticisms and frustrated by his inability to win over hostile audiences.

## Unsackable

Mr Brown's task between now and May 5th is clear. It is not, as some have argued, to put the economy at the centre of the campaign. Instead, the chancellor must convince sceptical voters that the fruits of the strong economy have not been squandered. If this government has an ideology, it is that a well-run, growing economy can provide the resources needed by a modern welfare state without resort to punitive rates of taxation. Unfortunately for Mr Blair, that message is more likely to be believed if it comes from Mr Brown.

It is hard to take seriously the idea currently doing the rounds that on May 6th a triumphant prime minister will dispense with Mr Brown's services if he declines to move meekly to the Foreign Office. If Mr Brown plays his strong hand with grace, it will be up to him whether or not this has been his last budget.

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# Looking to Europe

Mar 17th 2005
From The Economist print edition

AFP

**After decades of trying, Turkey has at last got a starting date for EU entry negotiations. Tim Hindle (interviewed here) explains what membership will mean for Turkey, and for Europe**

**Get article background**

WHEN Europe's leaders agreed last December that negotiations for Turkey's entry into the European Union could begin in October this year, they brought cheer to some parts of Europe and fear to others. Marek Belka, Poland's prime minister, said it was “a fantastic economic opportunity” for his country, which joined the EU only in May 2004. Others were much less enthusiastic. Valéry Giscard d'Estaing, a former French president, said he objected to Turkish membership because Turkey has “a different culture, a different approach, a different way of life”.

Indeed it has. But so has France, and so has every other member of the European Union. The EU was never designed to impose rigid uniformity. The memoirs of Jean Monnet, one of the EU's founding fathers, quotes him on the dust-jacket: “*Nous ne coalisons pas des états; nous unissons des hommes*.” (We are not combining nations; we are bringing together people.) The draft EU constitution, drawn up by a convention chaired by none other than Mr Giscard d'Estaing, recalls the EU's motto: “Unity in diversity”.

Turkey's entry into the EU will increase that diversity, but not by as much as some people fear. For the EU itself is changing as it takes on board the ten new members who joined in May 2004 (ranging from Estonia to Cyprus), even as Turkey is becoming more like an EU member state in order to prepare for membership. Moreover, change on both sides is bound to continue. The Turkey of today is not the one that may eventually become the first Muslim nation to join the largely Christian EU, any more than the EU of today is the club that Turkey may eventually join.

Istanbul taxi drivers, a sure barometer of the state of their nation, know that the mere prospect of EU membership has already transformed their country. “It doesn't matter now if we never get into Europe,” says one. “Look at the tremendous changes that we have already seen just by trying to get in.”

Turkey has been trying to get in ever since 1963, when it was admitted as an associate member of the then European Economic Community. It formally applied for full membership in 1987. But its hopes rose only in 1999, when it was officially recognised as a candidate country, and were further boosted in 2002, when it was told that if it met certain conditions by December 2004 it would be given a firm date for talks to begin. By then the Turkish people were overwhelmingly in favour of membership, although different groups had different reasons. Last December, on the day after the EU set a date for the start of membership negotiations, *Milliyet*, a mass-circulation Turkish daily, quoted Nazim Hikmet, an iconoclastic 20th-century poet: “Beautiful days beckon us, lads, sunny days beckon.”

In a deeper sense, Turkey (or rather its ruling elite) has wanted to be seen as European for very much longer. In the mid-19th century the Ottoman empire introduced a series of reforms known as *tanzimat*, or reorganisations. These were modelled on European ideas about things such as property rights, education and taxes, and were meant to help the ailing empire's economy catch up with its peers to the west. At the Paris Conference of 1856 to negotiate peace after the Crimean war, the Ottoman empire was described as “part of the European concert”.

But the *tanzimat* did not get very far, and by the 1870s the empire was famously labelled “the sick man of Europe”. The origin of the phrase is disputed, but Tsar Nicholas I of Russia seems to have the strongest claim. Over the years many Turks have quoted this with perverse pride. They may have been sick, but at least they were part of Europe.

## Parental guidance

When the empire crumbled after its disastrous alliance with Germany in the first world war, Turkey resumed its European aspirations under General Mustafa Kemal, the charismatic founder of the republic. Subsequently known as Ataturk, “father of the Turks”, Mustafa Kemal was determined to turn his metaphorical children into a nation of thoroughly modern European-oriented citizens. He was not, for instance, going to let Turks wear silly clothes such as the *fez*, the brimless hat that allowed them to bow their covered heads in prayer. So he outlawed the rather charming headgear and imposed a uniformity that denied his country's rich multicultural past. One nation, one language, one culture: that was his vision.

Turkish students are taken to Ataturk's mausoleum, Anit Kabir, to be taught the official, politically correct version of the republic's history. On a hill in the capital, Ankara, the great man's remains are laid to rest pointing unequivocally towards Europe, not to any religious monument in Arabia or in Turkey's Anatolian heartland.

Ataturk died in 1938 of a modern European complaint, cirrhosis of the liver. Just before the beginning of the second world war, it was not a time for pushing on with revolutionary nation-building, but for battening down the hatches. In his book, “The Turks Today”, Andrew Mango (who has also written an authoritative biography of Ataturk) says that the first concern of Ismet Inonu, Ataturk's successor and loyal follower in the early years of the new Turkey, “was to safeguard the achievements of the republic”. To do that, he had to exercise stronger controls because he did not have “the unrivalled prestige Ataturk had won...The approach of the [second] world war brought on a siege mentality and a siege economy.”

Thus Turkey turned inwards for decades, its leaders fiercely determined to preserve the work-in-progress that Ataturk had left them in 1938. Inonu stayed on as head of his party until 1972, the year before he died at the age of 89. His successor was a youngish man called Bulent Ecevit, who served as prime minister on and off for the next 30 years until he was finally ousted in the general election of 2002. A series of coups and military interventions in 1960, 1971, 1980 and 1997 helped to preserve the Kemalist heritage.

The great man's aura is undiminished. The new Turkish notes and coins, introduced on January 1st this year, are dominated by his image. He is on the front of every single note and also appears on the watermark. The back of the one-lira note shows the Ataturk Dam and the five-lira note the Ataturk Mausoleum. The ruggedly handsome leader, looking a bit like the actor Ralph Fiennes with wrinkles, is set to continue to shape the destiny of Turkey's 70m people in the 21st century.

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# Which Turkey?

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**Not everyone sees the country with the same eyes**

EUROPEANS' perceptions of Turkey are often shaped by the Turks they know. In Germany, these tend to be the *Gastarbeiter* (guest workers) who moved there in the 1960s to take up low-grade jobs that the booming post-war economy could no longer fill from the domestic labour market. Over 2m Turks came, and they were mostly honest, hard-working and religious people. But they were economic refugees, poor villagers from the east, not model citizens of Ataturk's republic.

Many of their children, though, have moved on, to become anything from prominent European parliamentarians to star European footballers. One of them even married one of the sons of Helmut Kohl, a former German chancellor. It is just the sort of transformation that Ataturk would have wished for his countrymen.

Yet experience of the *Gastarbeiter* has left Germans in two minds about Turkish entry into the EU. Their main worry is about a massive further inflow of economic migrants. The Social Democrat-led government of Chancellor Gerhard Schröder is generally supportive, but the opposition Christian Democrats, led by Angela Merkel, have vowed to do everything possible to wreck Turkey's application. A federal election is due next year, with the outcome still wide open. Even Mr Kohl, the Christian Democrat chancellor who was voted out in 1998, has spoken against Turkish membership, saying that he is “convinced that Turkey will not fulfil the Copenhagen criteria”. These are the basic conditions for joining the EU, which lay down that “membership requires that the candidate country has achieved stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities.”

France's perspective is very different. Many of Turkey's 19th-century reforms, the *tanzimat*, were based on French laws, and Turkey's early republican elite was educated in the French language in French schools. As with Iran, disaffected members of that elite, including members of the Armenian and Jewish minorities, headed first for Paris. It is no coincidence that France is the only European country other than Greece (which is particularly hostile to its eastern neighbour) to have officially recognised the slaughter of Armenians in the first world war as genocide. In 1998, the French National Assembly decreed as much—a judgment the Turks maintain can be made only by the International Court of Justice in The Hague.

Britain's relationship with Turkey is less burdened by history and complexity. The British mostly meet bright young Turks who come to their country to study, or chirpy hotel staff on their holidays in resorts such as Bodrum and Marmaris. For them, Turkey is a young place, full of promise. They rarely see headscarves, or the darker side of Anatolia.

Panos

**Like fathers, like sons?**

Britain's government looks on Turkey's entry into the EU as an opportunity. It sees the country as a potential role model for Muslim democracy, much as America's does. Not surprisingly, Britain and America have been among the staunchest supporters of Turkey's application to join the EU. Bringing economic and political stability to a country described by one analyst as “the most geo-strategically important piece of real estate in the world” is a grand goal, almost on a par with bringing democracy to Iraq. But in some parts of the EU America's support has not gone down well. When President George Bush last year said yet again that the EU should start talks with Turkey at once, France's president, Jacques Chirac, told him off for interfering in things that were not his business.

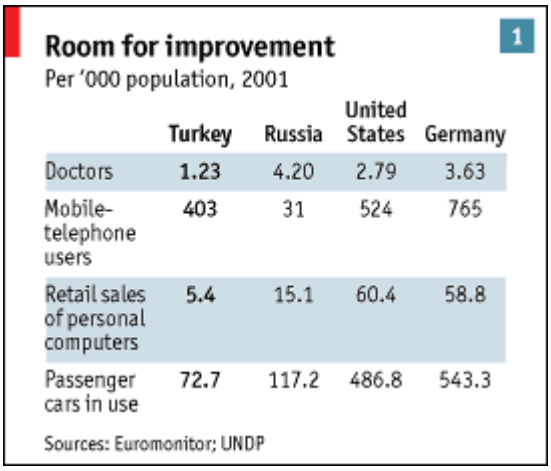
## The common view of Islam

All across Europe, though, people are worried about Turkish membership. Many feel, like Mr Giscard d'Estaing, that Turkey is an alien place whose people's values are incompatible with Europe's. This concern is fed by all sorts of things: from schoolboy propaganda about the Crusades and the Ottoman siege of Vienna to the views of the Catholic Church and of historic Protestant leaders such as Martin Luther, who described the Turks as “the people of the wrath of God”.

That unease explains why relatively few people from northern Europe choose to spend their winters in Turkey rather than, say, in Greece or Spain. It also accounts for the defensive behaviour that Europeans often unpack the moment they arrive on Turkish soil. In a recent short story by Louis de Bernières, “A Day Out for Mehmet Erbil”, the (British) author tells of a long-drawn-out haggle he witnessed in Gallipoli between a German tourist and a Turkish café-owner over the price of a cup of tea: “A sum”, says Mr de Bernières, “that in Germany would not have bought a second-hand piece of chewing gum.”

In essence, Europeans are bothered because 99% of Turkey's population is Muslim. Benign ignorance of the youngest of the major religions turned to fearful ignorance after September 11th 2001. Some Europeans assume that all Turks pray five times a day, want to introduce *sharia* law (so they can chop off people's hands) and frequently violate their women.

The reality, of course, is that the vast majority of Turks practise their religion in much the same matter-of-fact way as do Christians in western Europe. Many can quote from the Koran and use it as a source of moral guidance in their everyday lives, just as many Europeans are familiar with Biblical texts and stories. For neither group does knowledge of the good books necessarily imply fundamentalist convictions, though in both groups there are people for whom it does.



**Room for improvement** 1

Per '000 population, 2001

| | Turkey | Russia | United States | Germany |
|---|---|---|---|---|
| Doctors | 1.23 | 4.20 | 2.79 | 3.63 |
| Mobile-telephone users | 403 | 31 | 524 | 765 |
| Retail sales of personal computers | 5.4 | 15.1 | 60.4 | 58.8 |
| Passenger cars in use | 72.7 | 117.2 | 486.8 | 543.3 |

Sources: Euromonitor; UNDP

Turkey is that rare thing, a democratic Muslim country, because Ataturk decreed that it should be so. Although he separated the church from the state, he was so suspicious of clerics of all kinds that he brought the church firmly under the state's control. He made the Christians' Sunday into the day of rest, and nobody has suggested that it revert to the Muslim holy day of Friday. The democratic republic's Directorate of Religious Affairs decides where mosques shall be built, employs their *imams* and on occasion tells them what to preach. It also lays down rules on the sort of religious education to be given in schools.

In recent years, Turkey has seen renewed interest in religion. Since the 1980s and early 1990s, when Turgut Ozal was prime minister and president, Ataturk's tight controls have been relaxed. Large numbers of new mosques have been built, and the Islamic headscarf has reappeared on the streets. In “The Turks Today”, Mr Mango argues that this resurgence of Islam parallels the resurgence of Christianity in Europe after industrialisation. “As in Britain after the industrial revolution,” he says, “the revival of piety is easing the pain and discomforts of Turkey's modernisation.” It is also proving to be a test of the monocultural republic's ability to accommodate diversity.

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# Surprisingly European

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**Mr Erdogan and his Islamist AK Party are not the obvious people to take Turkey into the EU**

THE government now enthusiastically leading Turkey towards EU membership is an unlikely candidate for the job. Its two most powerful figures, the prime minister, Recep Tayyip Erdogan, and the foreign minister, Abdullah Gul, have strong Islamist roots.

Mr Erdogan, the son of a sea captain, was born and raised in a poor district of Istanbul. He earned his political spurs as mayor of the city in the 1990s, when he was notably successful in cleaning up its dreadful pollution and getting its gridlocked traffic moving.

As chairman of the one-year-old AK Party when it surprisingly but convincingly won the general election in 2002, Mr Erdogan was unable to take a seat in parliament immediately because of a 1998 conviction for inciting religious hatred by reading a poem in public. In the months it took for him to change the rules and obtain a parliamentary seat, Mr Gul stood in as prime minister.

Mr Gul himself was a member of parliament and minister for a strongly Islamic party, Welfare, which briefly headed a coalition government in the mid-1990s. In 1997, however, the party was expelled from the coalition in a forceful nudge by the armed forces that did not fall far short of a coup. The soldiers felt Welfare was pushing its Islamic agenda too strongly, forging links with the Arab world and looking to adopt elements of *sharia* law. Ziya Onis, a professor of international relations at Koc University in Istanbul, says that the armed forces in Turkey have always intervened to “re-equilibrate democracy, as opposed to a desire to assume power for its own sake”. And so it proved on this occasion.

Both Mr Erdogan and Mr Gul are distinctly more religious than any of their predecessors. Their wives wear headscarves and rarely appear in public. When her husband first took office, Mr Erdogan's wife, Emine, who comes from the town of Siirt in the Kurdish south-east of the country, would not even shake hands with other men, but now she does.

Mr Erdogan is regarded as a pragmatist who has changed since his days as an Islamic firebrand. In September 2004 he was persuaded by the EU and his country's armed forces to withdraw a proposal to criminalise adultery that had plenty of support within his own party. At a conference of European Green parties held in Istanbul in October 2004, Daniel Cohn-Bendit, a fiery leader of student riots in Paris in 1968 and now the respectable co-head of the Greens in the European Parliament, said that Mr Erdogan, whom he had first met ten years earlier, “has changed as much as me”.

DBR

**Mrs Gul and Mrs Erdogan face the public**

In his speeches, the prime minister likes to get away from the past and look to the future. “The past” might mean Kemalism, but it might also refer to previous Islamic-leaning politicians. When Mr Gul went off on a peace-broking trip to Israel and Palestine at the beginning of this year, Mr Erdogan said that Turkey was now ready to fill a gap in the region left by its retreat into itself years ago.

In his government, Mr Erdogan wants idealists who always see the glass as half full, not half empty. His party's goal is to “develop every corner of the country and redistribute national income”. That befits a politician brought up in the slums of Istanbul, a city with great and highly visible extremes of wealth.

Apart from Mr Gul and the American-educated economy minister, Ali Babacan, few of the AK Party's ministerial team speak foreign languages, but outsiders who know them are impressed by their efficiency. Kemal Dervis, a senior World Bank official who was called back from Washington, DC, to become finance minister under Mr Ecevit (after one of Turkey's periodic financial crises in 2001), has said that if the government he served in had been anything like as efficient as this one, it would still be in power today.

The AK Party has learnt lessons from Welfare's experience, dropping many of its predecessor's more radical Islamic policies but holding on to the reputation for honesty in public affairs that, after many years of sleaze in both the public and the private sectors, had propelled it to the top in the first place. The letters AK stand for *Adalet ve Kalkinma*, Justice and Development. But the word *ak* in Turkish means white, and by implication clean and pure.

## Look west

The party soon made it clear that its priorities lay not to the east or the south, but to the west. On hearing of his election victory, Mr Erdogan said: “Our most urgent issue is the EU, and I will send my colleagues to Europe...We have no time to lose.”

Showing enthusiasm for EU membership was hardly controversial. Opinion polls at the time of the 2002 election suggested that some 70% were in favour across the country as a whole, and as many as 95% among the Kurds. If the experience of the ten countries that joined the EU in May 2004 is anything to go by, those figures will fall as Turks begin to realise that most of the 80,000 pages of EU rules that they must take on board are not negotiable. If they join, all sorts of

things—from the size of their apples to the state of their factory toilets—will be decided in Brussels.

But none of this is likely to affect the results of the next Turkish general election, which is due in 2007. The AK Party's popularity has increased steadily, to the point where opinion polls now give it more than 50% of the vote. It won the 2002 election with a mere 34%, but under Turkey's electoral rules that gave it 363 seats in parliament, two-thirds of the total.

The only other party to win any seats was the Republican People's Party (CHP), led by Deniz Baykal, whose 19% share gave it 178 MPs. This has been one of the few occasions in Turkey's short democratic history when the country has been free from the constraints of coalition government. But AK's parliamentary majority is so overwhelming that some think democracy would be better served by a little more opposition.

This arithmetic hinges on the 10% threshold for parliamentary representation. (Germany, which some people see as a model, has a threshold of 5%. But it also has a long tradition of effective coalition government, which Turkey does not.) Kurds complain that the system leaves them entirely unrepresented. DEHAP, a pro-Kurdish party, got more than 6% of the total vote in 2002 (and more than 45% in the five main Kurdish provinces), yet it ended up without a single seat in parliament. However, this parliament contains more Kurdish MPs than any previous one, probably over 100. And the 10% threshold had the advantage of keeping out of power a man several members of whose family have been found guilty of massive fraud. The Youth Party, led by Cem Uzan, won 7% of the votes in the election.

Despite Mr Erdogan's nigh-impeccable record so far in both economic and foreign affairs, most of the Kemalists in Istanbul and Ankara suspect that he has a hidden agenda which, once revealed, will show the AK Party in its true colour: an intense Islamic green. They sincerely believe that it is merely using the prospect of EU membership to reduce the power of the armed forces before turning the country into an Islamic state, something akin to Iran.

They are not reassured by the argument that, just as approaching EU membership protects civilian rule against military interference, so it defends it against religious takeover. Ah yes, they say, but EU membership will never actually come about. Somewhere along the way it will be vetoed. And then Turkey will be left in the hands of the AK Party, and all the good works of Ataturk and his republican successors will be undone.

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# City lights

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From The Economist print edition

**For Turks who want to get ahead, the places to be are Istanbul or Ankara**

TURKEY is divided into two parts. There is Istanbul and its political appendage, Ankara, and there is the rest. This “other” Turkey, most of it in the east, is a vaguely defined area from which the cosmopolitan inhabitants of Istanbul and Ankara carefully insulate themselves. Until very recently they would have travelled there only under firm instructions from the armed forces or the government.

Conversely, people from the eastern regions hardly ever made it to positions of power. Now, however, there are some easterners in the ministerial team. Burhan Yenigun, the mayor of the remote eastern city of Van, says some ministers in office today were at school with him. In a country where whom you know still matters at least as much as what you know, that is helping Turkey's disadvantaged east feel more involved in the democratic process.

The east also happens to be home to many millions of Kurds, whose alienation from the mainstream of Ataturk's republic has been a cause of dissension and violence almost since the republic was born. When one Istanbul company's salesmen go to Diyarbakir, a large Kurdish city in the east, the locals say (and not in jest): “The men from the republic have arrived.”

Istanbul, home to up to a fifth of Turkey's population, is a microcosm of Turkey itself, with migrants from particular regions clustering in specific areas. Migration has also made it the largest Kurdish city in the world. At the same time it is home to some of the trendiest boutiques in Europe. Meandering beside the Sea of Marmara and across the Bosphorus for some 40 miles, it houses the headquarters of every Turkish company of substance. Even Is Bank, a commercial bank set up by Ataturk and his Republican Party in Ankara, his own creation, recently moved its headquarters there.

Istanbul is a handsome, ancient place and a magnet for the rest of the nation. It has an air of noisy, amiable chaos. In far-off Rize, a city on the Black Sea coast near the border with Georgia, in the heart of Turkey's wealthy tea-growing region, an improbably large number of cars have Istanbul registration plates, recognisable by the prefix “34”. The locals explain that anybody in the area who makes money immediately goes to Istanbul to spend it.

Ankara, on the other hand, is a modern place sadly lacking in man-made beauty. Many a Turkish civil servant has silently rued the day that Ataturk decided to plonk his republic's capital in a treeless expanse of Anatolian wasteland, in the interest of shifting the nation's centre of gravity away from Istanbul. So devoid was Ankara of any structure of note in the early years of the republic that civil servants had to live in dormitories.

Beyond these now lively metropolises lies the “other” Turkey, vast tracts of mountainous land stretching from the city of Edirne in the west, where Ottoman architecture had its finest flowering, to Kars, once capital of the long-defunct South-West Caucasian Republic, now wasting near the end of the cul-de-sac leading to Turkey's closed border with Armenia.

The typical inhabitant of this other Turkey today lives in a town, not a village, in a standard

apartment that is one-quarter of a floor in a six- or seven-storey concrete block. These uniform buildings, sometimes painted in pastel shades to break the monotony, creep across the hillside scrub on the fringes of fast-growing towns from Edirne to Sanliurfa. Everywhere the countryside has a half-finished look, littered with abandoned buildings.

## Europe's new neighbours

Around its eastern and southern edges this landmass touches Georgia, Iran, Iraq and Syria. With Turkey inside the EU, these will be Europe's new neighbours, a Europe whose highest mountain will be Mount Ararat, not Mont Blanc; a Europe that will include the northern areas of Mesopotamia, the land between the Tigris and Euphrates rivers, often considered the cradle of civilisation.

Turkey's mountainous hinterland is tightly controlled from Ankara, which allows the regions little financial autonomy. Ataturk inherited the Ottoman system for imposing law and order and for gathering taxes and redistributing revenues. At its heart is the *vali*, the governor appointed by the Ministry of Home Affairs in Ankara who is sent out to the regions much like ambassadors are to foreign postings.

Every *vali* has a huge office, which reflects its occupant's status both by its size and by the number of black leather armchairs it contains. The great men are surrounded by acolytes in dark suits who interrupt continually with requests to sign pieces of paper. In Turkey today, as in Ottoman times, little can be done without a governor's signature. If a *vali* is absent or ill, official life—from granting a pay rise to a junior employee to authorising a new office block—simply goes on hold until the governor can resume signing.

## The middle of nowhere

The *vali* system suits a geography in which towns and cities sit in bowls surrounded by mountains, isolated and self-contained. The towns are joined by long asphalt strips with only the occasional petrol station as a diversion. From time to time a village appears in the distance. But there is no rural aristocracy or country life of the sort you find in western Europe. Turks live in villages not because they have chosen to escape to them, but because they have been unable to escape from them.

The other power in town is the local mayor, an official elected for a five-year term. Unlike the *vali*, who comes from many miles away, the mayors are usually local folk from the town they represent—often local tradesmen, in Trabzon even a former professional footballer. Both the mayor and the deputy mayor of Diyarbakir are Kurds. Their responsibilities are for the most part limited to transport, drains and water, and their revenues come from building permits, local property taxes and central-government grants.

**Urban aspirers**

It is now government policy to decentralise control and budgets away from the huge and inefficient ministries in the capital. This year the “Village Services Department”, a 42,000-strong cohort of civil servants in Ankara who oversee administration of the villages, is due to be disbanded. But this is only a drop in the ocean. Turkey's public administration still employs more than 2m bureaucrats.

Trying to decentralise further, the government says it would like to shift power from the *vali* to the local mayor. Part of the plan is to send a different sort of individual to these outposts. Efkan Ala, for example, the governor of Diyarbakir, was appointed to the job last year at the age of 39. His approach is more informal than that of his predecessors. He clearly disapproves of the minder from the security services who attends the meeting with your correspondent and takes copious notes.

Last autumn the government was due to transfer large chunks of treasury property to the local authorities. Much of it—such as sports centres and museums—earns rent and could make a big difference to the mayors' budgets, says Volkan Canalioglu, the mayor of Trabzon. But the plan was shelved. Perhaps the central government's success in getting its own budget under control has made it reluctant to let go. “We don't want to end up like a Latin American country,” says Mr Babacan, the economy minister, “where they don't know what their budget is.” But the government, he says, is still “working on how to share revenues with the regions”.

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# The wrongs and rights of minorities

Mar 17th 2005
From The Economist print edition

**Turkey has yet to face up to its diversity**

THE country has moved some way towards meeting the Copenhagen criteria for EU membership. It has abolished the death penalty, saving the life of Abdullah Ocalan, the leader of the PKK, an outlawed Kurdish organisation responsible for a guerrilla war through much of the 1990s. It has revised the penal code (previously unchanged since 1926) and reinforced the rights of women. It has introduced a new law allowing broadcasting in any language, including Kurdish. And it has brought to an end the random searches that used to be common, particularly in the east. Now nobody can be searched without a court order.

The government has also introduced an official policy of zero tolerance towards torture, for which its police and security forces became infamous in the West in 1978 with the release of “Midnight Express”, Alan Parker's film about a young American imprisoned on drugs charges. The punishment for torture has been increased, and sentences may no longer be deferred or converted into fines, as often happened in the past.

But changing the law is one thing, changing habits is another. A villager in the east who gets searched by the state police may still not dare demand to see a court order. The police forces, it is said, are being retrained, but the Turkish Human Rights Foundation (TIHV) says that of 918 people treated at its centres in 2004, 337 claimed they had been tortured. The comparable figures for 2003 were 925 and 340. The TIHV says that even in 2004, “torture was applied systematically by police, gendarmerie and special units in interrogation centres.” It claims that 21 people died in “extra-judicial killings” during the year.

In its October 2004 report on Turkish accession, the European Commission emphasised the need for further “strengthening and full implementation of provisions related to the respect of fundamental freedoms and protection of human rights, including women's rights, trade-union rights, minority rights and problems faced by non-Muslim religious communities.”

## Institutionalised intolerance

From its very beginnings the republic has been confused about minorities. In his book, “Crescent and Star: Turkey Between Two Worlds”, Stephen Kinzer, a *New York Times* journalist, wrote: “Something about the concept of diversity frightens Turkey's ruling elite.” Officially the state recognises only three minorities: those mentioned in the 1923 Treaty of Lausanne, signed after Ataturk's army had thrown out the occupying forces left over from the first world war. The treaty specifically protects the rights of the Armenian, Greek and Jewish communities in the country.

In the early years of the republic there were Kurds in parliament, and the deputy speaker was an Alevi (a religious minority of which more later). But after Kurdish uprisings in 1925 and 1937 were brutally suppressed, the republic went into denial about its cultural diversity. The word “minority” came to refer only to the Lausanne trio, who were non-Muslims and indeed were increasingly perceived as non-Turks. If you are a member of a minority in Turkey today you are, almost by definition, seen as not fully Turkish.

The Kemalists' narrow brand of nationalism has helped to suppress the country's sensitivity to minorities. At Anit Kabir, one of the huge murals in the museum below Ataturk's tomb depicts the Greek army marching through occupied Anatolia in 1919, with a soldier on horseback about to bayonet a beautiful Turkish girl. In the background is a Greek cleric brandishing a cross and inciting the soldiers. The picture caption explains (in English): “During these massacres the fact that clerics played a provoking role has been proven by historical evidence.” As anti-clerical as Ataturk was (whatever the faith), it is hard to believe that he would have approved of such a message.

Turkey has also found it difficult to face up to the Armenians' persistent allegation that the massacres of 1915, in the maelstrom of the first world war, were genocide. Gunduz Aktan, the head of an Ankara think-tank and a former Turkish ambassador in Athens, dismisses the claims as “Holocaust envy”.

The most troublesome minority in recent years has been the biggest of them all, the Kurds. Where minorities are concerned, size does matter. The Armenians, Greeks and Jews in Turkey today number in the tens of thousands; the Kurds up to 15m. In the 15-year guerrilla war in the east between the Turkish army and security forces and Mr Ocalan's PKK, some 35,000 civilians and troops were killed. Many more villagers were displaced (some say perhaps a million), terrorised out of their homes, often by fellow Kurds, and forced to move to cities far away. But nobody really knows what proportion of the Kurds the PKK stands for.

The more extreme Kurds say they want their own homeland—“Kurdistan”, a word that provokes shivers in Ankara—to embrace their people living in Iran and Iraq as well as in Turkey. The more moderate Turkish Kurds want to be allowed to speak their own language, to be taught it in school, and to hear it broadcast—all of which they are slowly and grudgingly being granted. DEHAP's party congress this year was attended by Mr Ocalan's sister and Feleknas Uca, a German member of the European Parliament. Both addressed the meeting in Kurdish. The Kurds' cause has received extensive publicity abroad. Leyla Zana, a member of the Turkish parliament imprisoned for ten years for speaking in Kurdish in the parliament building, was released last year after intense pressure from abroad. The Kurdish Human Rights Project, a London-based charity, has been effective in bringing Kurdish cases to the Court of Human Rights in Strasbourg.

Panos

**The Kurds are still waiting for better times**

Among them are thousands of claims for compensation for loss of property as a result of the military incursion against the PKK in the 1990s. Such cases, however, can be heard in Strasbourg only if domestic laws offer no prospect of compensation, and Turkey recently passed a law “on damages incurred from terrorism and combating terrorism”. The governor of Tunceli, a town close

to mountains where the PKK was particularly active, said recently that 6,200 people in his province had applied for compensation under the new law.

The government is also making modest attempts to help Kurds who were forcibly removed from their villages to return home. Incidents in the east are now few and far between, even though last summer the PKK, renamed Kongra-Gel, ended a ceasefire called after Mr Ocalan was arrested in Kenya in 1999. The organisation said the government had reneged on a promised amnesty to its members.

## Dark forces

So has the Kurdish problem been more or less resolved? Not if you listen to the many Turks who believe in conspiracy theories. Such theories thrive in a society that still thinks transparency in public affairs is an oxymoron. After the tsunami disaster in Asia on December 26th last year, the American embassy in Ankara felt obliged to issue an official denial of colourful Turkish newspaper reports that the wave had been caused by American underwater nuclear explosions designed to kill large numbers of Muslims.

The conspiracy theory about the Kurds goes something like this: Mr Ocalan, although held in solitary confinement on a remote island in the Sea of Marmara, still controls the larger part of the organisation through visits from his brother, his sister and a lawyer. Since his captors are said to be able to control what messages he conveys in return for supplying him with cigarettes and other favours, why would he end the ceasefire unless dark forces wished to resurrect the Kurdish uprising? And why ever would they want to do that? In order to undermine the EU negotiations by reigniting civil war in the east, concludes the theory.

This may not be as absurd as it sounds. There are powerful groups inside Turkey who see no advantage in joining the EU, and many Turks believe in the presence of dark forces inside the state. Anyone who doubts the idea of an *état profond*, a deep state—a combination of military officers, secret-service agents, politicians and businessmen that pull invisible strings—is silenced with one word: “Susurluk”. This is the name of a town in western Turkey where in 1996 a Mercedes car crashed into a lorry, killing three of its four occupants. These proved to be an eerily ill-assorted bunch: a notorious gangster, sought by Interpol, and his mistress; a Kurdish MP and clan chief suspected of renting out his private army to the Turkish authorities in their fight against the PKK; and a top-ranking police officer who had been director of the country's main police academy. What they were doing together that night may never be known—the sole survivor, the clan chief, claims to remember nothing—but it is sure to fuel Turkish conspiracy theories for years to come.

## An unsung minority

There is another large minority in Turkey that has received nothing like as much attention as the Kurds. Most Turks are Sunni Muslims, whereas most Arabs are Shiites. But there is a group called the Alevi who have lived in Anatolia for many centuries and who are not Sunni.

Their main prophet, like the Shiites', is not Mohammed but his son-in-law, Ali. Most of them maintain that their religion is separate from Islam, and that it is a purely Anatolian faith based on Shaman and Zoroastrian beliefs going back 6,000 years. Christian, Jewish and Islamic influences were added later, though the Alevi accept that the Islamic influence is the strongest.

Their number is uncertain, because no census in Turkey has asked about religious affiliation since

the early 1920s. At that time the Alevi accounted for about 35% of the then population of 13m. Today the best estimate is that they make up about a fifth of a population that has grown to 70m, their share whittled down by the success of the republic's policy of “ignore them and hope they will assimilate”.

Many of the Alevi are also Kurds. The most predominantly Alevi town is Tunceli, once a PKK stronghold and a place notably short of mosques. The Alevi are not keen on them because Ali, their prophet, was murdered in one. Their houses of prayer are called *cemevi*.

In the cities they tend to practise their religion in private. Kazim Genc, an Alevi human-rights lawyer, says he discourages his daughter from mentioning her faith because Sunni Muslims think Alevi rites include sexual orgies and incest. Of the AK Party's 367 members of parliament, not one has admitted to being an Alevi.

The current government treats the Alevi as merely a cultural group, not a religious minority. That way it can sidestep its legal obligation to set aside space in towns and cities for religious communities' “places of worship”. When in May 2004 a group of Alevi in the Istanbul district of Kartal asked for land to be allocated for a *cemevi*, the local governor said they were Muslims and Kartal had enough mosques already. Indeed it has: almost 700 of them. But there is only one *cemevi*. The Alevi have taken the case to an Istanbul court and are awaiting a hearing.

Another case has gone all the way to the Court of Human Rights in Strasbourg, a journey that the Kurds have taken with some success. It involves a student who is trying to establish his right to stay away from compulsory religious classes in school on the ground that they teach only Sunni Islam. The authorities may have to learn to come to terms with yet more scary diversity.

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# A woman's place

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### The theory and the practice

IN 1993 Turkey elected its first female prime minister, Tansu Ciller. Many wealthier nations have yet to equal that feat. In business, too, some Turkish women stand out. For example, one of them heads the Sabanci Group, a large conglomerate. Guler Sabanci succeeded her uncle when he died in 2004. There are plenty of Turkish women who appear scantily clad in the local gossip magazines, and there are those who parade up and down Istanbul's ultra-smart Abdi Ipekci Street, buying fashion labels. There are also brilliant female professors, glamorous TV journalists and dogged lawyers. And there is Leyla Zana, the Kurdish parliamentarian who shortly after she was released from prison last year went to Brussels to receive the Sakharov Prize for Freedom of Thought.

The official republican line on women is written on a wall inside the Ataturk memorial at Anit Kabir. “The ancient Turk considered men and women to have equal rights. With the adoption of Islam women lost these rights...Ataturk was determined that men and women should have equal rights.” And indeed the civil code he introduced in 1926 ended the Muslim law allowing husbands to divorce their wives unilaterally—a law he himself had taken advantage of only six months previously.

More important than the law itself was his public attitude to women. He encouraged them to be independent and to go out to work. Childless himself, he adopted a number of young girls, one of whom, Sabiha Gokcen, he sent to Russia to be trained as a military pilot.

And yet behind the door of the average Turkish home, much has remained unchanged since 1923. A survey in 1994 found that virtually all the women in a poor neighbourhood in Istanbul needed the permission of a man to leave their house at night. And in eastern Anatolia there are towns where the teeming crowds on the mid-day streets seem to be made up exclusively of men.

## The hamam and the coffee-house

With the migration of families from villages to large towns, “family conflicts have increased,” says Aytekin Sir, a professor at the Dicle University faculty of medicine in Diyarbakir. Anthropologists explain that traditional Turkish villages were organised into “male spaces”—such as the coffee-house and the mosque—and “female spaces”—such as the *hamam* (Turkish bath) and the public laundry, where women could get together.

As Turkish villagers migrated to the cities and living standards rose, the tasks of washing and cooking were transferred to the home. Most *hamams* today are in luxury hotels, for the benefit of tourists. The mosques and the coffee-houses, on the other hand, are still there. And in the towns there is yet another place for men to gather: at the football ground.

Ms Sir says that when families move into cities, young girls can be virtually incarcerated in small urban apartments. This, she says, explains a sharp increase in recorded suicides among 15-25-

year-old women in eastern cities. One such rash of suicides inspired the latest book by Orhan Pamuk, Turkey's most famous contemporary writer. The girls in “Snow” kill themselves because of the official ban on headscarves.

Wearing the headscarf is prohibited in government offices, schools and universities. Its original purpose—to screen women's hair, once considered a particularly sensual human feature, from the lascivious gaze of men—has long been overlaid with political and feminist significance. Kemalist women would not be seen dead in one, but women in the villages have always covered their heads.

Outside a multiplex cinema in a spotless new shopping mall on the outskirts of Adana there are no headscarves to be seen. Near the gates of Ankara University, though, your correspondent spotted a male student giving his female companion an undisguised kiss on the lips. She was wearing an Islamic headscarf and the particularly unattractive ankle-length khaki macintosh that often goes with it.

The girls' suicides in the east may be provoked by more than a general absence of freedom, or of the particular freedom to wear a scarf. Ms Sir says family members often claim that a girl committed suicide to cover up an “honour killing” by a family member. This is just one of many forms of abusive behaviour within families, says Nuket Sirman, an anthropologist at Istanbul's Bogazici University. Turkey has only very recently moved from a kin-based community, where family relationships and honour were the cement of society, to a citizenship-based rule of law. The law may now give Turkish men and women equal rights; the family still does not.

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# Troublesome neighbours

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From The Economist print edition

**Some fences take a lot of mending**

THE first hurdle to be surmounted on Turkey's journey to Europe may well be Cyprus. Greece and Turkey have growled at each other over Cyprus ever since the Turkish army invaded the tiny island in 1974 to pre-empt a coup aimed at *enosis* (union) with Greece. That led to a division of the island, which replaced inter-communal strife with physical separation. For the Turkish speakers in the northern part of the island, acknowledged only by Turkey, it also meant economic stagnation.

Only some nifty semantics in Brussels last December managed to stop the Greek-speaking part of the Mediterranean island (which at that point had been a member of the EU for all of six months) from using its veto to spoil Turkey's European ambitions. In the end, Mr Erdogan agreed to recognise Greek-speaking Cyprus as a member of the EU without recognising the state itself. All the same, Turkey will shortly have to revise its 1963 association agreement with the community, in which it recognised the existing members at the time, to extend that recognition to all the new members that have joined since, including Cyprus.

When Mr Erdogan returned from Brussels with his carefully worded agreement, the opposition in parliament homed in on the fate of the northern part of the island. Mr Baykal, leader of the Republican People's Party (the only parliamentary opposition), told Mr Erdogan: “If you sacrifice Cyprus, the nation will sacrifice you.”

But Mr Baykal's reading of the nation's mood may be less astute than Mr Erdogan's. The prime minister has no doubt noticed the parallel with Britain, where voters in the 1990s were getting tired of the running sore in Northern Ireland. Once Ireland and Britain were both members of the EU and the large economic gap between them began to close, the issues that divided the communities in Northern Ireland started to fade.

In the 19th century, when the British used Cyprus to stand guard at the entrance to the Suez Canal, the island had considerable strategic importance, but now it is little more than a few orange groves and a string of sunbeds. Turkey will be hoping that over the next few months the UN's so-called Annan peace plan for reuniting the island can somehow be revived. When both halves of the island voted on it in 2004, it received overwhelming support in the north, traditionally seen as the main obstacle to settlement, but surprisingly was vetoed in the south. Next month the northern region may swing further in favour of such a plan when it votes for a new president to replace the long-time holder of the post, Rauf Denktash. At times Mr Denktash has seemed almost pathologically opposed to reconnecting the two halves of the island.

Nothing could establish Turkey's political maturity more surely in the months to come than an ability to extricate itself from Cyprus without feeling diminished. It is uncomfortable about handing over the Turkish-speaking community in the north to a country led by Tassos Papadopoulos, a man described in the Turkish press as a “terrorist turned Greek-Cypriot leader”. But now that the island is a member of the EU, it has to accord its minorities the same sort of protection that the EU is asking Turkey to provide.

The only party with real clout is the EU itself. Mr Erdogan is thought to have decided not to stand in the way of any internationally led peace initiative on the island, an example perhaps of his pledge to “jettison the past”. Some Turks would like Britain or Germany to threaten to recognise northern Cyprus if the Greek-speaking Cypriots do not come into line. But that is unrealistic. The best hope for a settlement lies in the EU finding a way to make Mr Papadopoulos see the sense of a new sort of *enosis*, one with the ostracised northern part of the island.

## Iraq's dominoes

AP

**Can Cyprus become whole again?**

The other place high on Turkey's foreign agenda is Iraq. Although the Turks opposed the Americans going in, and stopped the troops from passing through en route to the north of Iraq, the war has been of great economic benefit to them. Plastic containers for Turkish drinking water are strewn all over Baghdad, and Turkey has served as a market garden for the foreign troops there.

Turkey, however, is watching developments in the northern, Kurdish part of the country with trepidation. It claims to be keeping a brotherly eye on the Turkomen minority there, central Asians with some DNA in common with some Turks. But why should it feel more concerned about Turkomen interests in Iraq than about the interests of its own Kurdish minority inside Turkey?

The deeper fear is that the Americans will not be able to hold the three very different parts of Iraq together—the Kurds in the north, the Sunni Muslims in the middle and the Shiites in the south. Turks are worried that the Kurds will break away from a fragile federation and form their own country (the dreaded Kurdistan), centred on the oil-rich city of Kirkuk.

They believe that the Kurds in Turkey would then want to annex a big chunk of their land to this new state. The movement of thousands of ethnic Kurds into Kirkuk just before the Iraqi elections at the end of January this year prompted a senior Turkish general to give warning that they could “cause a serious security problem for Turkey”. Mr Gul, the foreign minister, expressed similar concerns to the UN.

The Kurds claimed that they were simply responding to earlier population shifts engineered by Saddam Hussein, who forced large numbers of Iraqis to move from the south of the country to wealthy Kirkuk to dilute the Kurdish majority there. The two long-serving leaders of the Iraqi Kurds, Massoud Barzani and Jalal Talabani, say that the Kurds' national aspirations can be met within a federal system.

Other Kurds continue to argue that the unity of Iraq is not sacred, especially if the rest of the country to their south falls further into chaos. Should they gain the upper hand, it is not inconceivable that the Turkish army might want to move into northern Iraq. For many Turks, there is a Jerusalem quality to Kirkuk. It is a place they believe should always have been theirs.

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# A promising start

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From The Economist print edition

**But Turkey's economy still has a lot to catch up on**

IF IT were a member today, Turkey would be the poorest country in the EU—but not by a mile. Although its GDP per person is less than a third of the average for the 15 members before last year's round of enlargement, it is not far off that of Latvia, one of the ten new countries that joined in May 2004. And it is much the same as those of Bulgaria and Romania, which hope to become members in 2007. When they do, there will be an overland route from the Channel Tunnel to the Turkish border that never leaves EU soil.

Later this year Turkey's state statistical department will come up with revised figures for the country's GDP, based on the EU's statistical methodology. The economy minister, Mr Babacan, says that GDP figures could go up as a result. But even if they do, the size of the Turkish economy will remain considerably understated because of the huge black economy. Mr Babacan puts the size of this "informal" economic activity at over 30% of official GDP. One survey found that more than half of the people who claimed to be employed were not registered, meaning that they did not pay taxes or receive state benefits.

Whatever the absolute level of Turkey's GDP, there is no doubting the country's recent economic progress. Donald Johnston, the secretary-general of the OECD, has described it as "stunning". This success has come in three parts. First, growth. Turkey's GDP in 2004 was probably more than 8% up on the year before, a rate that no country in the EU came close to matching.

Second, inflation. Late last year the monthly year-on-year rate came down to single figures for the first time since 1972. The rate for the whole of 2004 was 11.4% (see chart 2). Last December, when Turkey signed a $10 billion three-year economic agreement with the IMF, the Fund's managing director, Rodrigo Rato, said that it would "help Turkey...reduce inflation toward European levels, and enhance the economy's resilience."

The economy could do with extra resilience. It has enjoyed rapid growth before, but this has usually been followed by severe recession and financial crisis. In the 1990s the growth rate went up and down like a yo-yo (see chart 3, below), with the economy shrinking by around 5% in both 1994 and 1999 and growing by slightly more in 1995 and 2000. Foreign investors mostly kept clear.

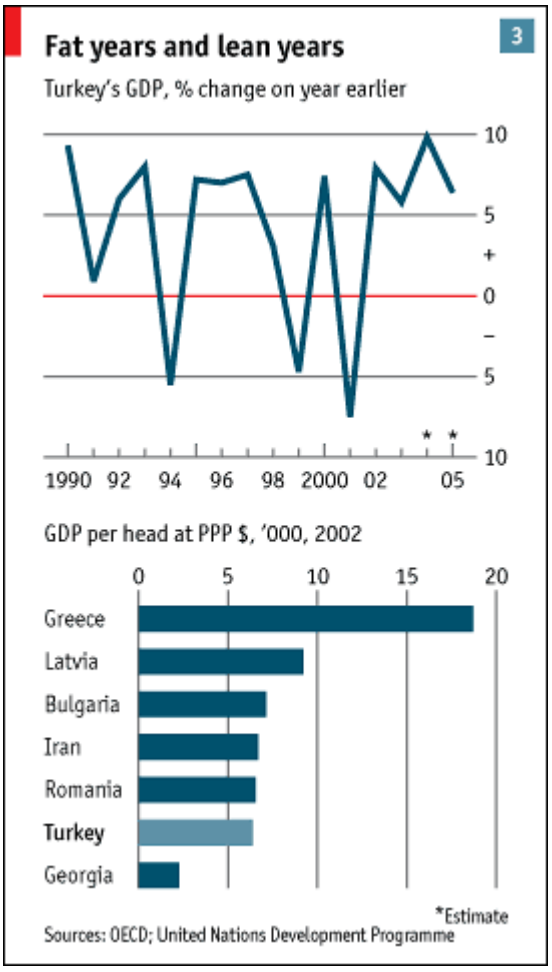
In the most recent crisis, in 2001, GDP plummeted by over 7%. In February that year the lira was devalued by about 40% in a week and short-term interest rates briefly touched an annual rate of 7,500%. On the IMF's recommendation Mr Ecevit, the then prime minister, called in Mr Dervis from the World Bank in Washington, DC, to become his finance minister. The government introduced an economic programme which Turkey has (unusually) held to, and which seems to be working. Mr Erdogan more or less adopted it as his own, if only to retain the IMF's support.

The government's third big success in recent years has been in fiscal policy. In 2004 its budget achieved a primary surplus (before interest payments) of 6.5% of GDP, which went a long way to keeping Turkey's international creditors happy. The budget has been helped by a sharp cutback in agricultural subsidies, from $6 billion a year three years ago to around $1.5 billion now, which has caused surprisingly little complaint from farmers. At the same time there has been a big shift from price support to direct income support.

The government is trying to reduce its role in the economy in several ways. For one, it is dismantling price controls. Since the beginning of January it has no longer had to decide on the right level of fuel prices every Monday morning. It hopes soon to stop setting electricity and gas prices too.

However, it has been less successful in getting rid of its extensive industrial and financial holdings. Privatisation has been promised for almost as long as low inflation. The government now says that this year it will revive the previously cancelled sale of Tupras, an oil refiner; Turk Telekom; Petkim, a petrochemicals firm; and the tobacco side of Tekel, the state-owned drinks and tobacco company. But would-be investors should not hold their breath. Previous plans have fallen through because of the state's inability to make the businesses sufficiently attractive to buyers.

When competition has been allowed to enter state-controlled areas, the results have been good. The opening up of the skies saw a number of private airlines (such as Onur Air and Atlasjet) take on the state-owned Turkish Airlines. This, says the OECD, has brought fares on some internal routes down by 60%. It has also increased passenger numbers, but it has not yet opened up new routes. Traffic is still concentrated on journeys to and from Istanbul. More flights between provincial towns would help reduce Istanbul's stranglehold on resources, as well as the stacking over its international airport.




After stability, the next priority for the Turkish economy is redistribution. The gap between the country's rich and poor is vast. Istanbul and Ankara alone account for about 30% of GDP. In the richest regions of the country, GDP per person is nearly six times what it is in the poorest—the region round the cities of Kars and Agri, towards Mount Ararat and the Iranian border. Many of the houses there are mud-roofed single-storey structures with improvised windows. Water is drawn from the nearest well and separate piles of dried dung for fuel and straw for animal feed are heaped outside the front doors to see the occupants through the winter. The lucky houses have a satellite dish on the roof to pick up the multiplying number of Turkish television channels with their soaps and chat shows. Most of the local community's economic opportunities lie in smuggling.

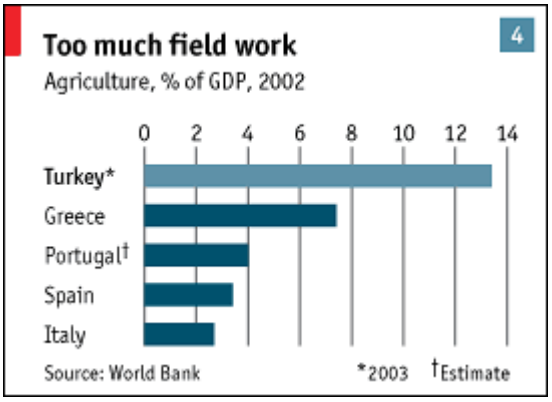
Redistribution could be helped by a change in the tax system. At present the country relies heavily on indirect taxes—which are non-redistributive, but easily collected—and more lightly on direct taxes, which are harder to collect. The government has started to shift the burden. In the 2005 budget, for example, VAT on various food, health and education items was cut from the standard rate of 18% to 8%.

The government is also drawing up legislation to restructure its inland-revenue service, making it a semi-independent authority with tax collection as its main task. “Our purpose is to establish a tax system to reduce the unregistered economy and collect taxes more efficiently,” said Mr Erdogan at the end of last year. He hopes that cuts in the corporation-tax rate and in the top rates of income tax this year will encourage more people to fill in their tax returns honestly. Currently only 2% of returns are audited, so tax evaders are likely to get away with it. Even those who are caught are merely given a fine, although imprisonment to punish tax evasion is being considered.

Perhaps the most politically charged economic challenge for the government is unemployment. The official rate of 10% is widely acknowledged to be unrealistically low. There is considerable underemployment in farming, for example. Unemployment among Kurdish migrants in Diyarbakir is as high as 60%, says the city's mayor. As the OECD puts it, “continuously high unemployment could undermine the social and political support for reforms.”

## Where it hurts

Yet unemployment seems destined to get worse before it gets better. Mr Babacan explains that 500,000 new jobs need to be found every year to keep the unemployment level constant. That number is set to rise as the working population continues to grow. If the government meets its target of 5% growth for each of the next three years, says Mr Babacan, it will create 1.65m jobs over that period, just enough to mop up the increase in the working population.




But the labour force could be swelled further by large numbers of workers coming off the land as Turkey invests in its agricultural sector and increases productivity. Agriculture currently accounts for 32% of all jobs but only 13.4% of GDP. If the workforce was cut to match the sector's contribution to the economy, 4.4m jobs would have to be found elsewhere.

Some Europeans have nightmares about hordes of unemployed Turks roaming freely across the European Union and undercutting native workers' pay. But in reality there is little evidence that immigration harms the natives' job opportunities. Rather, EU countries should be welcoming young Turkish workers with open arms, especially where populations are declining. Those workers will help to make sclerotic economies more flexible and keep up contributions to state pay-as-you-go pension schemes.

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# Den of thieves

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From The Economist print edition

**The importance of fighting corruption**

WHATEVER else Turkey does, if it wants its economy to flourish, it must control corruption. For decades, sleaze and authorised theft have undermined the economic life of the country. And this is a fish that has rotted from the head. When asked how she was able to afford an apartment block in Florida, Tansu Ciller, who served as prime minister in 1993-95, said that she had found some of the money wrapped in a bundle in her mother's bedroom. Other former prime ministers stand accused of manipulating the sale of state assets for their benefit.

On New Year's Eve last year, Murat Demirel, the one-time owner of Egebank and a nephew of a former president, Suleyman Demirel, was picked up by the Bulgarian authorities from a small fishing boat that was trying to land on Bulgaria's Black Sea coast. He had been barred from leaving Turkey while investigations into the collapse of Egebank were going on. He is said to have offered the Bulgarian coastguard €100,000 ($136,000) to let him go, but the man would not take a bribe. In asking for his extradition, Turkey told the Bulgarian authorities that Egebank's collapse had caused financial losses of $1.2 billion. Mr Demirel was duly sent back to await trial.

Corruption may be getting more publicity, but is not yet attracting heavier punishment. Turkey was one of 34 signatories of the OECD's anti-bribery convention in 1997, but an anti-corruption law that the present government drafted in its early days in power has yet to be passed, and a pre-election promise to end immunity from prosecution for parliamentarians and ministers remains unfulfilled.

The family suspected of being the biggest thieves of all, the Uzans, continue to elude the authorities. The father, Kemal, and one son, Hakan, have fled abroad. The other son, Cem Uzan, once an aspiring politician who made his own fortune as a media mogul in partnership with the son of a former president and prime minister, Turgut Ozal, still lives openly in Turkey, having avoided signing incriminating documents. Meanwhile Motorola and Nokia, two mobile-phone companies, are trying to recover the $5 billion awarded to them by an American court in 2003 in damages, compensation and interest for money of which the Uzan family defrauded them; and the Turkish government is trying to find the Uzans to reclaim the $6 billion that it says they owe the state.

The armed forces, surprisingly, are being bolder than the government in cracking down on corruption. General Hilmi Ozkok, the chief of general staff, has given his blessing to the prosecution for corruption of a retired admiral. In December, various charges were brought against Ilhami Erdil and his wife and daughter. The daughter is alleged to have been a partner in a company that won naval supply contracts; the wife is said to have used the navy's credit cards for frequent shopping trips; and Mr Erdil himself is said to have dispensed soft postings to conscripts at a price of $5,000-10,000 each. He claims his purchase of two apartments in Istanbul for $1.25m was financed by a relative.

The admiral's case came to court not because the system's built-in safeguards exposed him but because two officers he had fired posted some of the evidence on the internet. Immune from prosecution while in office, he was brought to court on his retirement. His case is widely expected

to be followed by others involving former generals and an air-force commander.

Reuters

**Cem Uzan tries his hand at politics**

Most Turks know (if only because every male has to do military service) that military officers' quarters are far from spartan, and on the whole they are not bothered by the luxury bath taps and well-stocked cellars. Some worry, however, that General Ozkok's decision to bring higher, and hidden, levels of corruption out into the open may undermine the average Turk's faith in the armed forces, which polls consistently show to be the most respected institution in the country.

This, the worriers argue, will matter more in the years to come as Turkey's progress towards EU membership steadily diminishes the soldiers' power. This process has already begun. Since August last year, the powerful National Security Council, a joint committee of government ministers and top military officers, is no longer headed by a military man.

## Foreign Dearth of Investment

The pervasive corruption in Turkey has imposed not only a moral cost but a heavy economic one too. It is one of the main reasons why Turkey attracts such low levels of foreign direct investment. A recent study by two professors at the University of Massachusetts in Boston on the relationship between corruption and foreign direct investment (FDI) found that corruption is a serious obstacle to investment. It also found that the willingness to invest was related to the difference in corruption levels between the country of the foreign investor and that of the host country. Thus Turkey may be able to attract investment from equally or more corrupt nations, such as Russia or Ukraine, but not from western Europe or north America.

Indeed, Russians and Ukrainians are far more in evidence in Turkey these days than visitors from any EU country. From the queue for visas at the airport to the hairdressing salons in the south-west, the brothels in Istanbul and the ski resorts near Erzurum, it is clear that these two countries are happily investing in Turkey whereas others stay away.

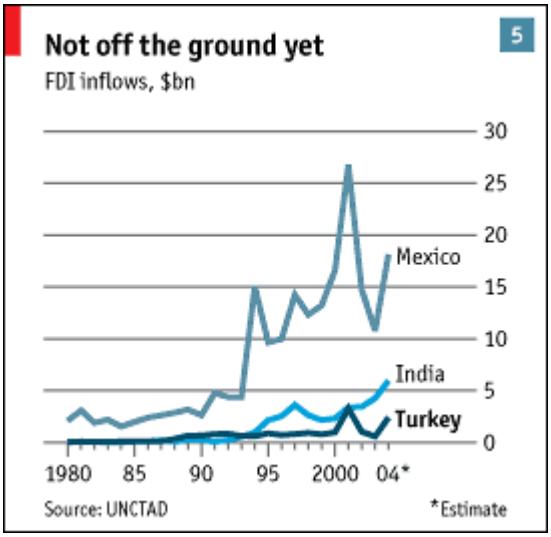
“Power can corrupt even good people,” says Mr Ala, the governor of Diyarbakir. A big chunk of the AK Party's vote at the 2002 election came from people fed up with sleaze. But however well-intentioned Mr Erdogan and his ministers may currently be, to expect them to be totally incorruptible is unrealistic. The system presents temptations at every turn. In mid-January there were headlines about Mrs Erdogan having accepted gifts worth $33,500 on an official trip to

Moscow with her husband earlier that month. When she had admired a carpet in a shop, the Turkish owner had presented it to her, explaining that he could not accept money from his prime minister. Some of the gifts were subsequently returned.

Corruption has helped to prevent Turkey from taking advantage of a huge economic opportunity that presented itself on a plate. International companies today want to be “lean and mean”, which implies holding very little stock. Yet they also want to be able to meet modern consumers' desire for instant gratification, which requires them to hold at least some stock. Most companies resolve this conflict by compromise. They go to China to get goods made cheaply, but they also look for another offshore manufacturing centre that is closer to home.

Mexico has become such a place for the United States. But Turkey has not been able to play a similar role for Europe because it has never managed to attract the heavy foreign direct investment that would be needed. Annual inflows have generally remained below $1 billion; Mexico, by contrast, has attracted over $10 billion a year for the past eight years (see chart 5). As a proportion of GDP, Turkey's stock of FDI is lower now than it was in the 1980s.

Undoubtedly corruption is one reason for these low levels of investment, but there are others. One of them is red tape. Compliance with Turkish customs regulations is particularly onerous. Sadan Eren, the chairman of the thriving chamber of commerce in lively Trabzon, says he complains about bureaucracy every time he goes to Ankara. The governor of Van sees the reduction of red tape as one of his prime responsibilities.




Another deterrent for foreign investors is Turkey's poor record in protecting intellectual-property rights. One American company recently withdrew from the country because it found itself unable to enforce international arbitration awards. Others complain of the “at times ambiguous legal environment”.

Investment is sorely needed, particularly in the east. Beyond Erzurum there is little industrial activity other than the occasional cement factory and a flour mill or two. When Mr Erdogan visited the eastern town of Siirt, his wife's birthplace, the crowd chanted, “Bring us a factory.”

The GAP project, a series of dams blocking the Tigris and Euphrates rivers as they meander towards Syria, has been a showpiece for successive governments of what is being done for the impoverished regions of the east. But the dams have been a mixed blessing. They have turned large parts of the Harran plain, south of Sanliurfa, from brown to green. But they have also

created a build-up of silt close to the Syrian border that threatens to raise tensions between the two neighbours. They have encouraged the cultivation of thirsty, soil-depleting cotton in the area: the GAP region is now a bigger producer of the white fluff than Turkey's traditional cotton-growing area around Adana. And they are blamed for a change in the local climate. Diyarbakir, which used to see regular falls of winter snow, has not had one for five or six years.

Almost the only sizeable foreign investment in the region is a huge pipeline being built by a consortium of oil companies led by BP. Scheduled to come on stream this year, it will be able to carry a million barrels of oil a day from Baku, in Azerbaijan, via Tbilisi in Georgia and Kars in the north of Turkey, to the Mediterranean port of Ceyhan. But there will be little to show for it. Along its whole length there will be only eight pumping stations; the rest of the pipeline will run underground. It will be watched over by a specially trained but small security force. It will, however, prevent a further increase in the large number of oil tankers that now pass through the narrow Bosphorus Straits.

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# Turkey's curriculum

Mar 17th 2005
From The Economist print edition

**Continue westernising and press on with economic reform—but take the people with you**

TURKEY has been brave enough to take part in the International Student Assessment Programme (PISA), allowing its education system to be compared with those of other OECD countries. The main finding of a recent PISA study was that provision within the country differs wildly. Some schools and some students perform very well by any standard—and they are not all in Istanbul or Ankara. But too much Turkish education is of poor quality.

One teacher who recently moved schools, from a town in Anatolia to a village 15km away, was shocked by the difference in standards. The poorer schools still put too much emphasis on memorising facts and learning by rote, and not enough on understanding ideas. Minority Rights Group International, a non-governmental organisation, also points out that “derogatory statements remain in school textbooks about different minorities.” Kazim Genc, the Alevi human-rights lawyer, says there are “hurtful words about Alevis in many schoolbooks, encyclopedias and magazines”.

Some of the reasons for the low educational standards are socio-economic. Children in poor families can be important breadwinners. If there are lots of children, the older daughters often have to take care of their younger siblings, which leads to high rates of absenteeism. This is a particular problem in the east of the country, where it is still not unusual for village families to have ten or 15 children. The daughters of such families have a poor chance of getting a decent education.

But their prospects are improving. In 1997 the government increased the period of compulsory education from five years to eight, and today just over half of all schoolchildren go on to a further three or four years of secondary education. In 2005, for the first time in the history of the Turkish republic, education received a bigger share of the national budget than the armed forces.

Backed by a $250m World Bank programme, the government is trying to improve attendance. Mothers of poor families receive a monthly grant of $15-20 for each child, depending on its attendance record. At the end of 2004, in a remarkable example of affirmative action, the government agreed to give larger grants for girls than for boys.

But the biggest improvements have been in higher education. The number of universities has grown rapidly and now totals 78. Several high-quality private institutions have been set up, including a university sponsored by the Sabanci Group which its boss, the unmarried Ms Sabanci, calls her big baby. Most of the teaching in these institutions is in English. They now give the country's brightest undergraduates a real alternative to going abroad.

One of the best is Bilkent University, founded in 1984 on a vast site just outside Ankara and backed by a large family-owned conglomerate that built, among other things, Istanbul's huge new international airport. Students in Turkey sit a nationwide university entrance exam and are ranked on their performance. Of the top 100 students in the rankings last year, 34 chose to go to Bilkent. Increasingly, the main reason why students go abroad for their first degrees is that they have failed to get into a decent Turkish university.

A good supply of high-quality university education is something new for Turkey. The country's recent leaders were almost all educated abroad—an expensive luxury available only to a small elite. When she became prime minister, Ms Ciller spoke better (American) English than she did Turkish. So, arguably, did Mr Dervis when he was parachuted in to rescue the nation from financial disaster in 2001. Mr Ozal did his best to lure back bright Turks who had stayed away after studying abroad. Many of the country's top businessmen and government officials in the 1990s were American-educated. They brought with them western attitudes and expectations, but had little in common with Turks outside the sophisticated enclaves of Istanbul and Ankara.

AFP

**Still father of all he surveys**

The present government has a chance to bridge that divide. It is trusted by Kurds and others in the east who have felt left out of “the republic” and its political life almost since Ataturk's time. It is trying hard to improve its human-rights record—still too slowly for some, but more genuinely than its predecessor. At the same time it is continuing with the pro-EU policy of its western-oriented predecessors and sticking to their economic policy as laid down by the IMF. Moreover, it is determined to end Turkey's isolation and play a full part in the complicated politics of the region.

## A once-in-a-lifetime chance

The results so far are almost too good to be true. Mr Gul has described it as a “silent revolution”, a phrase that is being echoed everywhere. It may be too soon to rejoice: the government has been in power for nearly two-and-a-half years, and has not yet reassured the Kemalist doubters, many of whom still suspect that it has a long-term fundamentalist agenda. But every day brings more converts to its cause.

Much depends on Mr Erdogan himself. The Turkish political system is designed to channel power to the top. Diplomats and journalists in Ankara work away at trying to understand him, but find him hard to read. He is a different breed of Turkish leader, lacking the Byzantine political skills that served many of his predecessors so well. But then with his parliamentary majority he has little need for them.

He could well be in this fortunate position for at least another seven years—the rest of this electoral term and, assuming he is re-elected, the next one. Turks, it has been said, are good on a forced march. Mr Erdogan may be about to take them on a journey to Europe the like of which they have not seen since the days of Ataturk.

Outside all Turkish schools today are emblazoned the words: *Ne Mutlu Turkum Diyene* (happy is the man who can say “I am a Turk”). One day, perhaps, all over Turkey there will be signs saying, *Ne Mutlu Avrupaliyim Diyene* (happy is the man who can say “I am a European”). Ataturk would certainly approve.

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Economist.com BUSINESS

Corporate crime

# WorldCom's cowboy bites the dust

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From The Economist print edition

Reuters

**Bernie Ebbers learns the hard way where the buck stops**

“HE WAS the man who was in charge. It's just kind of hard to sit there and think he didn't know what was going on.” So said Vincent Wright, a bus driver from Manhattan who sat on the jury trying Bernie Ebbers. On March 15th it was that sense of disbelief which, after eight days of deliberation, led the jury to find the former boss of WorldCom guilty of fraud, conspiracy and filing false documents with regulators in relation to the $11 billion accounting fraud that brought the telecoms giant crashing down in America's biggest-ever bankruptcy. Mr Ebbers, who in his pomp during the telecoms boom sported cowboy boots and a ten-gallon hat, is now facing the real possibility of spending the rest of his life behind bars.

The conviction of Mr Ebbers is by far the most significant yet in America's latest crusade against corporate crime. This was launched following the scandals that brought down Enron in late 2001 and WorldCom in June 2002. (WorldCom has since emerged from bankruptcy as MCI.) Without the WorldCom scandal the crusade might never have become the generously financed affair it is today. An initial bout of post-Enron public fury had died down, and attempts to reform corporate governance and accounting—notably the Sarbanes-Oxley legislation then before Congress—were losing momentum.

WorldCom changed all that, by convincing the American public that Enron was not a solitary event, and convincing congressmen and the Bush administration that, with mid-term elections looming, they would pay a political price if they did nothing. “Sarbanes-Oxley wouldn't have passed without WorldCom coming along,” claims Mark Roe of Harvard Law School. In the wake of WorldCom's collapse, President George Bush set up the Corporate Crime Taskforce in July 2002;

extra money was given to the Department of Justice and the Securities and Exchange Commission (SEC) to pursue corporate miscreants; and longer sentencing guidelines were introduced.

If Mr Ebbers's appeal fails, he could theoretically get up to 85 years in jail. But most experts expect him to receive a 20-to-25-year sentence. With time off for good behaviour, he might serve half that. And yet, for a 63-year-old, even a dozen years could be a life sentence.

Mr Ebbers had argued that, although a massive fraud took place, it was masterminded by Scott Sullivan, WorldCom's chief financial officer, and that he was unaware of it. A former milkman with no formal training in accounting, Mr Ebbers claimed that he was incapable of spotting the fraud. This was dubbed the “aw, shucks” defence by prosecutors, who argued that he feigned ignorance but was, in fact, a micro-manager who even bothered to endorse the idea of saving money by scrapping free coffee for staff. Mr Sullivan claimed that Mr Ebbers directed the fraud.

This was “more like a rape case than an accounting fraud case,” says Joseph Grundfest, a former SEC commissioner now at Stanford Law School. “Both sides agree that sex took place; the question is, was there consent?” Most of the prosecution case rested on Mr Sullivan's testimony, though WorldCom's controller David Myers, who has pleaded guilty, testified that Mr Ebbers apologised to him for forcing him to tell lies about the books, which Mr Ebbers has denied doing. Mr Ebbers did not use e-mail, and few documents linked him decisively to the fraud. Defence lawyers attacked Mr Sullivan's credibility, pointing out that he had pleaded guilty and agreed to testify against Mr Ebbers in hopes of reducing his own sentence and avoiding further probing into unsavoury aspects of his private life.

In the end, therefore, the case largely revolved around which man, Mr Sullivan or Mr Ebbers, who also testified, was more believable. It seems to have been a close call. Jurors report that four of their number changed their vote to guilty only on the last morning of their deliberations. Views such as Mr Wright's—and the judge's clarification that concluding that Mr Ebbers knowingly turned a blind eye to Mr Sullivan's creative accounting was enough to find him guilty—carried the day.

There has been none of the public sympathy for Mr Ebbers that Martha Stewart received after her conviction last year. Instead, the verdict will encourage prosecutors in upcoming trials of other senior businessmen. These include Dennis Kozlowski, the former boss of Tyco, who is currently being retried for allegedly looting his firm; Richard Scrushy of HealthSouth, also now on trial; and Enron's erstwhile bosses, Jeffrey Skilling and Kenneth Lay, whose defences so far have been similar to that of Mr Ebbers. Mr Lay is currently on a media “charm” offensive, which coincides with the publication of “A Conspiracy of Fools”, a book by Kurt Eichenwald, a reporter for the *New York Times*, that helpfully presents Mr Lay as blissfully unaware of much that was taking place in his firm.

In future, American bosses should assume that they could be sent to jail for large-scale frauds perpetrated at their firms, even if there is no paper trail or smoking-gun memo linking them directly to wrongdoing. Working as a bus driver in Manhattan may be much less well paid, but it also now looks a lot less risky.

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Economist.com BUSINESS

Wireless e-mail

# Attack of the BlackBerry killers?

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**The seemingly ubiquitous e-mail device faces growing competition**

WHAT Apple's iPod music-player is to teenagers, the BlackBerry e-mail hand-held is to executives: the gizmo they cannot be seen without, and often cannot live without. But you probably knew that already: readers of *The Economist* are smack in the middle of the BlackBerry demographic. At conferences, in boardrooms and on commuter planes and trains, they are everywhere. The BlackBerry has spawned designer accessories; earned a nickname ("CrackBerry") that reflects its addictive nature; and even has a malady ("BlackBerry Thumb") associated with over-use. But its success means that the Canadian firm that makes it, Research in Motion (RIM), now faces a growing throng of competitors.

"Most complex technologies start out in industry, then hit mass scale. We've crossed over now," says Mike Lazaridis, who founded RIM in 1984 while a student at the University of Waterloo in Ontario. RIM hopes to benefit as wireless e-mail, like the mobile phone before it, goes from being an executive toy to a technology with mass appeal. But so do its many rivals. As a result, warns Brian Modoff, an analyst at Deutsche Bank, RIM has reached a turning point, as the potential reward of a far wider market is balanced with the risk of much greater competition.

At the moment, 70% of RIM's revenue comes from the sale of BlackBerry devices, and the rest from software and services. To broaden its reach, RIM has licensed the BlackBerry software to big handset-makers such as Nokia, Motorola and Samsung, while continuing to sell its own devices. It is therefore both co-operating and competing with some much larger companies, as it navigates the transition to a more software-and services-based business. "Business-model transitions are always fraught with challenges," says Mr Modoff.

Other firms sense an opportunity to offer handset-makers their own BlackBerry-like software instead. "This segment is switching from proprietary innovation to standards-based mainstream growth," says Danny Shader of Good Technology, a maker of wireless e-mail software that runs on a wide range of hand-held computers and smartphones. Without a hardware business, Good is not competing with the handset-makers (such as Nokia) that license its programs. Its software, running on Treo and PocketPC hand-helds, is already in use at nearly 5,000 companies, including seven of America's top ten firms.

Brian Bogosian of Visto, another software firm that hopes to dethrone RIM, claims that mobile operators, like handset-makers, are also ambivalent about the BlackBerry. Many operators that resell the BlackBerry co-branded with their own logos would prefer not to dilute their own brands, he says. Visto offers "white label" software that runs on almost any device, and can be offered by operators under their own brands. So far, Visto has signed up ten operators, and will announce a deal with one of the world's biggest operators next month, says Mr Bogosian. Other firms pursuing a similar strategy include Intellisync, Seven and Smartner. Patent-infringement claims abound, underlining the intensity of competition. This week RIM paid $450m to settle a long-running suit with NTP, based in Virginia. Visto has filed suits against Seven and Smartner.

If all this were not enough, another threat looms on the horizon: Microsoft, the world's largest software company. “These guys exist because Microsoft is bad at mobile e-mail,” says Mr Modoff. But the next versions of Microsoft's mail-server and PocketPC software, due in a few months, will include support for BlackBerry-style “push” e-mail, whereby new messages simply appear in the in-box. “Anyone who ignores Microsoft needs to take a history lesson,” says Mr Shader, who once worked at Netscape, a software-maker crushed by Microsoft because its web browser posed a competitive threat. RIM is risking the same fate, says Mr Shader, by promoting the BlackBerry as a platform.

Mr Lazaridis is unfazed. Getting mobile e-mail to work is far harder than it looks, he says, and RIM has over a decade of experience. “The complexity is masked by this very simple, user-friendly device,” he says of the BlackBerry. “This is a solution that has evolved and developed, and gone through trial by fire. Any competitor is going to have to go through that. We've done it right, we have the brand, we know how to make these devices. It's a very high standard to try to match.” RIM continues to improve its hardware and software to maintain its lead, he says.

Yet while RIM will continue to grow at an impressive rate, it will probably do so more slowly than the overall market as competitors start to muscle in. One possible outcome is that RIM and Good will end up fighting over the lucrative corporate market, while the less-demanding consumer market becomes commoditised. But with hundreds of millions of e-mail users worldwide and, despite their apparent ubiquity, only 2.5m BlackBerry devices in circulation, it is still early days for the mobile e-mail business.

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Municipal Wi-Fi

# Wi-Fi pie in the sky

Mar 17th 2005
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**Many cities want to provide wireless internet access. Should they?**

THE internet used to be called an “information highway”—but does that mean it should, like many roads, be provided by the public sector? Many municipalities around the world are considering building city-wide wireless networks. Such networks use the popular short-range Wi-Fi standard—the same inexpensive technology used to provide wireless access in homes, offices, coffee shops and airport lounges.

This month, officials in Chicago proposed building a network that they claim will provide broadband-internet access to the city's businesses, schools and citizens for about $18m. And this week, San Francisco approved a feasibility study for its own network. Around 100 American towns and small cities have already set up Wi-Fi networks, as have towns in Britain, the Netherlands, Taiwan and elsewhere. The goal is to provide wireless access both to public-sector workers—from ambulance crews to building inspectors—and the general public, particularly in poor areas.

But there are a number of problems with such plans. It is not clear that the technology will work. Unlike small towns, big cities have skyscrapers that block Wi-Fi signals. Boosting the signal could cause interference with existing Wi-Fi networks in homes and offices.

But the biggest concerns are economic and indeed philosophical: should governments be getting into the telecoms business at all? Officials considering the initiatives say they are merely responding to a market failure: telecoms firms have been slow to deploy Wi-Fi networks, and charge high fees for broadband. Critics complain that public networks distort the market by competing with private firms. And, they add, local governments cannot fix potholes, let alone run telecoms networks.

But with so many cities being wooed by the promise of Wi-Fi, some telecoms firms feel threatened, and are fighting back through state legislatures, where their lobbying clout is strongest. More than a dozen American states already restrict or prohibit municipal wireless activities and over a dozen more are considering similar legislation. At the same time, however, some telecoms firms are vying to win the contracts to build and run municipal Wi-Fi networks.

Kevin Werbach, a communications-policy expert at the University of Pennsylvania's Wharton School, believes it is a false debate. While Wi-Fi can provide good connectivity in parks and outdoor areas, and may offer limited access for homes in areas where other forms of broadband are unavailable, it is not a reliable substitute for broadband services such as cable or DSL, he says. Amid the acrimony, the limitations of the technology seem to have been overlooked.

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Economist.com BUSINESS

Advertising

# Consumer republic

Mar 17th 2005 | PARIS
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**The industry battles for multinationals' global accounts**

MAURICE LÉVY, the boss of Publicis, a big French-based advertising group, has been busy restoring confidence after a St Valentine's day bust-up among his creative types. Seventeen executives at Saatchi & Saatchi, an agency owned by Publicis, handed in their resignation letters on February 14th. Their orchestrated walk-out at the firm's New York office happened only days after the departure of their boss, Mike Burns, who was in charge of Saatchi's work for General Mills, a big American consumer-goods firm.

As the so-called “Saatchi 17” had also worked on the General Mills account—said to be worth some $500m—it promoted speculation that they might try to lure away the business. But the maker of Cheerios cereal and Yoplait yoghurt later confirmed it would stick with Saatchi. Interpublic, another advertising group, has since hired the 17. Mr Burns is now being sued by Saatchi for breach of contract. The agency is seeking at least $3m in damages and wants an injunction barring Mr Burns from working for General Mills.

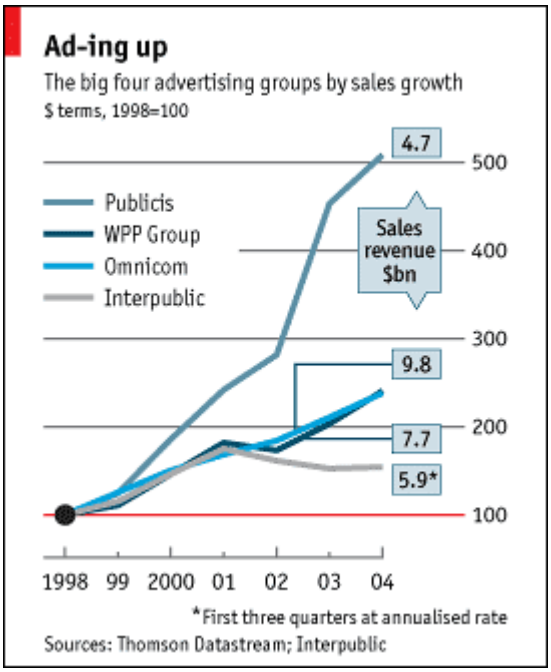
Even by the standards of an industry that has long faced the risk of creative people with volatile temperaments walking out of the door—and sometimes succeeding in taking business with them—this latest affair is an indication of the stiffer competition that adland now faces.

Advertising expenditure has been growing briskly since the slump that followed the bursting of the technology bubble in 2001. But it is turning into a much tougher business, not least because consumers are becoming harder to reach as a plethora of television channels fragment the broadcast audience and new media, such as the internet, also competes for their attention. To provide the broader advertising and marketing skills now needed, much of the industry has consolidated into four big holding groups: America's Omnicom and Interpublic, British-based WPP and Publicis (see chart below).

Led by Sir Martin Sorrell, WPP has been the biggest consolidator. It bought Young & Rubicam, an American ad giant, in 2000; trumped Havas, a French agency, in the battle for Tempus in 2001; won the fight for Cordiant against Publicis; and outmanoeuvred Havas again in the pursuit of Grey Global last year. Publicis's debts are still high due to its takeover in 2002 of Bcom3, another big American firm. After gobbling up hundreds of smaller ad firms, Omnicom has some 1,500 subsidiaries. Interpublic is the parent of dozens of companies.

Snatching each other's business remains a way to grow, especially as the stakes can now be much higher. This is because some of the big multinationals have decided to stop using a roster of agencies but instead to hand all their business to one of the big holding groups to manage.

## Global Pitch




HSBC started the trend last year when the bank chose WPP to manage all of its global advertising and marketing. WPP has set up a special team of some 600 people drawn from 21 of its agencies to look after the $600m account. Similarly, South Korea's Samsung Electronics decided to hand over its international advertising, also to WPP. Nestlé, the world's largest food firm, has reduced the number of agencies it is using for media buying. And this week agencies were scrambling after General Motors said it was also reviewing its media buying. The car company spends around $3 billion on advertising every year. Bank of America, Nokia, Intel and Pfizer are also streamlining their agencies.

Chris Clark, head of brand strategy at HSBC, says his bank needed a group with a broad reach to cater to customers all over the world, who range from individuals to huge corporations. “We don't want one size fits all,” says Mr Clark. “But we would like our message to be coherent.” HSBC used to work with hundreds of agencies in different countries. Having just one supplier to manage its marketing makes life simpler and saves on administrative costs.

There can also be an advantage in having a single group in charge of advertising to help guide companies through a more complex world. Nowadays, consumers are less loyal to brands and use a variety of media, says Mr Lévy. The internet and cable television are taking an increasing share of advertising away from traditional media, such as network TV and print, says Lauren Rich Fine, an analyst at Merrill Lynch, an investment bank. One of the latest fads in the industry is “viral marketing” in which agencies create intriguing messages which people tell others about. Last year the “subservient chicken”, an online campaign by Burger King to promote a chicken sandwich, was a huge success. It uses a website in which someone dressed in a chicken suit appears to follow commands typed in from the keyboard.

Some companies, especially those that own a range of different brands, such as Procter & Gamble and Unilever, still lean towards using different agencies, especially to tailor their ads to local markets. There is a risk that a one-stop shop for all marketing needs can kill creativity. “We don't want to become commodified communications factories,” complains Kevin Roberts, the boss of Saatchi. Only a handful of big firms will hand all their business to one of the big advertising groups in the next few years, predicts Mr Lévy. Indeed, it is often small agencies that come up with clever ideas: the subservient chicken was not the brainchild of Madison Avenue, but Crispin Porter & Bogusky, a mid-sized agency in Miami.

Economist.com BUSINESS

Hotels

# Budget room

Mar 17th 2005
From The Economist print edition

**As they sell property, some hoteliers move downmarket**

**Rising stars**

THE rush of hoteliers out of owning hotels into simply running them is becoming a stampede. Since late February, four big groups have announced sales of large swathes of their property. They reckon they can earn a better return in hotel management than in owning piles of bricks and mortar. But some are investing the cash from these sales in expanding their budget hotels, which can be more profitable than upmarket establishments.

Whitbread, a British leisure group, said this week it would put 46 of its Marriott-branded upmarket hotels in Britain and Ireland into a joint venture with Marriott, who will manage them while—and, it is intended, after—buyers are found for the bricks and mortar. Whitbread expects this will bring it “at least” £1 billion ($1.9 billion) over the next two years.

Most of this will go to shareholders, to the company pension fund or to cut debt. But the aim is clear: Whitbread, which plans a further £300m of sales, including five more upmarket hotels and other assets, will concentrate its hotel efforts on its budget arm, now called Premier Travel Inn, which it expanded to 28,000 rooms last year by buying a smaller rival. This chimes with a large expansion promised this week by Premier's nearest rival in Britain, Travelodge, owned since 2003 by a private-equity group. It plans to double its size, adding 15,000 rooms, by 2011.

Two grander, international groups also are to sell, but remain upmarket. One is Hilton Group, a British-based firm that operates the Hilton brand outside the United States. In 2001 and 2002 it sold 21 hotels for some £650m ($960m at the time) on sale-and-leaseback terms, and by now it wholly owns only 64 of the 403 hotels it operates. Last month it said it was looking for further big sales; a “substantial part” of the proceeds will go to shareholders.

A single £1-billion deal was announced last week by InterContinental Hotels, also a British-based group, with brands including Crowne Plaza and Holiday Inn, and a hotel turnover last year of £1.5 billion ($2.75 billion at 2004 rates). It is selling 73 British hotels to a consortium of property funds. By next July, if all goes well, this will bring its sales total to £1.75 billion, for 121 hotels, since the company was separated two years ago from the brewing side of their then joint parent, known as Six Continents. So far, it has promised to return £2 billion to shareholders, and it still has £360m worth of hotels on the market. Here is a rare management: one that not only aims to increase its shareholders' return on capital but to let them choose what to do with the money it no longer needs.

France's Accor group, with a worldwide hotel turnover last year of €5 billion ($6.2 billion), is taking

a different line. Last week it, too, announced plans to sell more of its upmarket hotels, while retaining the management: by 2006 it hopes 75% of its Sofitel brand hotels will be run on that basis, against 60% now. Though Accor may retain minority stakes in some, this will free more than €250m for other uses.

What uses? Aided by half of a €1 billion investment from Colony Capital, an American property fund (the other half going to cut debt), Accor aims to speed up its expansion plan. Notably, says Jean-Marc Espalioux, the chief executive, this will mean more economy hotels. Accor mostly builds and owns these itself, but (except in America) they earn 15% or so on capital, double last year's figure for its Sofitels and mid-market Novotels.

In bits of Europe—Spain, Italy, central Europe and Russia—this segment of the market is ill-served by the big chains. Accor will also make a big push in emerging markets, above all China. Like other chains, Accor already has hotels for tourists and well-off Chinese there, and plans a lot more. But the real novelty will be more of its simpler Ibis brand for less well-heeled locals. Accor has one of these so far. By 2010 it hopes to have 50. And well it might; the one—in Tianjin, a big city 120km south-east of Beijing—recorded 94% occupancy last year, and a return on capital of 13%, even with a room-rate equivalent to only $22 a night.

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Economist.com BUSINESS

Warner Music

# A hit on their hands

Mar 17th 2005
From The Economist print edition

**Buying music can be highly profitable**

Get article background

WHEN a group of private-equity investors, including Edgar Bronfman, scion of a wealthy Canadian family, bought Warner Music from Time Warner in March 2004, many people thought it was a big mistake. The music industry was shrinking, due in part to widespread piracy of CDs and the online swapping of music files. But the investment looks as if it will be highly profitable. In the past year, Apple has sold some 8m of its iPod portable digital music players, and 140m digital tracks have been downloaded through Apple's iTunes in 2004. This shows that people are prepared to pay for music online. So, taking advantage of investors' improved view of the music industry, Warner Music's owners now plan a $750m initial public offering of shares this spring.

What is particularly striking about this offer is just how much money Warner Music's investors stand to make. They paid $2.6 billion for the firm in 2004—$1.25 billion of which was equity capital. Following the acquisition, they paid themselves $350m of Warner Music's cash. Then Warner Music took on $700m of new debt, of which $681m was used to pay for another return of capital to shareholders. One year later the investors—Thomas H. Lee, Bain Capital, Providence Equity Partners as well as Mr Bronfman—have already got back most of the money they invested.

Money raised from an IPO would be mostly profit. Warner Music's filing with the Securities and Exchange Commission (SEC) says that in the immediate future the cash would be used for general purposes and to reduce the firm's debts. But the group of four investors could take money out at a later date. They will also sell shares alongside the initial public offering.

While there is no doubt that Warner Music has been a successful investment for the private-equity firms, its attractiveness to public investors—who usually demand growth—is less obvious. The music company has gone from an operating profit (before depreciation) of $150m in the 2003 financial year to an operating profit of nearly $324m between March and December 2004. But that has mainly been achieved by cutting costs, not by growing revenues. Warner Music has slashed staff numbers, merged individual record labels and cut its roster of artists.

As for revenues, the market for physical recorded music (tapes, CDs, etc) is unlikely to show much growth in the foreseeable future. Even with increased anti-piracy efforts, sales in America rose by only 1% last year, and in other markets they are slumping. In the long run, sales of digital-music tracks purchased over the internet and revenues from mobile-phone ringtunes, may bring growth back to the industry. But how the transition from one business model to another will affect profitability—and which firms will benefit from it the most—is still very unclear.

The fastest way to grow profits at Warner Music once costs have been pruned substantially is to merge with EMI, a music company which is listed in Britain. Such a combination is expected by many in the music industry. EMI looks vulnerable after issuing a profit warning in February, due to lower than expected recorded-music sales. Putting Warner Music and EMI together would generate

lots of cost savings. But there is a regulatory risk: the European Commission and America's Federal Trade Commission allowed the merger of Sony and BMG last year, but they would look harder at a merger that would reduce the number of big recorded-music firms from four to three.

As well as being highly geared, with its latest issue of debt rated by credit agencies as low as junk, Warner Music has accounting problems inherited from its former management. Its filing with the SEC states that it has problems with its internal controls over financial reporting and that it may be subject to sanctions or investigation by regulators. It is unclear as yet whether these problems are serious, says Christina Padgett, senior credit officer at Moody's Investors Service, or whether they simply reflect the fact that America's Sarbanes-Oxley act has imposed a higher standard of accounting accuracy.

Whether Warner Music's IPO is a hit with investors, of course, will depend on the price it asks for its shares. “The shares should be priced to reflect the uncertainty,” says Lawrence Haverty, associate portfolio manager of the Gabelli Global Multimedia Trust. Mr Haverty says that a valuation as high as $4 billion-5 billion is not implausible. If Warner Music's owners manage to get that much, there can only be two explanations: either Time Warner sold at a crazily low price, or the fund-management industry is full of greater fools.

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Disney

# A new mouseketeer

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**Disney has named an insider, Bob Iger, as Michael Eisner's successor**

AFTER three weeks of talking to outside candidates, the Walt Disney Company announced at the weekend that its president, Bob Iger, will become chief executive on September 30th. Its current boss, Michael Eisner, will then leave—a year earlier than his contract requires. He will also step down from the board next spring, and he has agreed not to seek the firm's chairmanship.

On the surface, this looks like another defeat for Mr Eisner, whose leadership has been heavily criticised. But he departs with his pride more intact than seemed possible in the aftermath of last year's annual meeting, when 45% of shareholders withheld their votes for his re-election to the board. With the appointment of Mr Iger, he has picked his successor. Mr Iger seems unlikely to force radical change on a company that Mr Eisner shaped over the past 20 years. Mr Eisner even sat in on part of Disney's interview with one external candidate for the job, Meg Whitman, the chief executive of eBay.

Several Disney board members wanted to bring in a well-known and proven media executive from outside the firm. At last week's board meeting, these people argued against Mr Iger's appointment. But finally removing Mr Eisner from power was enough to satisfy them, even though they are still dubious about Mr Iger, who has always worked in the shadow of others and whose talents were questioned by Mr Eisner himself in the past. Right until the last, albeit in a negative sense, Mr Eisner has dominated Disney.

George Mitchell, Disney's chairman, refused to disclose how many external candidates were seen. It may only have been Ms Whitman. According to one outside candidate, Disney's search firm, Heidrick & Struggles, contacted six people for interviews, but only Ms Whitman agreed to take part. Some candidates thought there was no point, and others, such as Jeff Bewkes, chairman of entertainment and networks at Time Warner, say they prefer their current job. Some state pension funds, such as the California Public Employees' Retirement System, have criticised the selection process for lack of objectivity. But most of Disney's investors seem content with the board's choice, especially since the company's results have improved lately.

Mr Iger's immediate task will be to woo Steve Jobs, boss of Pixar, an animation studio that produced a series of hit movies in partnership with Disney. Mr Jobs fell out with Mr Eisner last year for personal and business reasons. He said Pixar would choose another studio for marketing and distribution of its films. But Pixar has yet to appoint anyone else. Mr Jobs, as well as many Disney executives, will watch carefully to see if Mr Mitchell is right to point out that “Bob is not Michael; no two people are alike.”

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Economist.com BUSINESS

Face value

# Some like it hot

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Imaginechina

**Guo Guangchang is bullish on China's two most bubble-like businesses**

FOR China's would-be steel barons, these are troublesome times. In its efforts to cool down the economy, the government has been trying to regain control of an industry which was once an icon of Communist economic power. But Guo Guangchang, one of China's richest entrepreneurs, is undeterred. Steel remains at the heart of the conglomerate he is building.

China's steel production has more than doubled in the past five years—the extra output being equivalent to more than America's entire production. A third of the new capacity has come from private-sector operators like Mr Guo. His company, Shanghai Fosun High Technology, is the city's biggest private company, with five listed subsidiaries. Mr Guo expects steel demand to outpace GDP growth by 4 or 5 percentage points for several years. Half of that demand comes from the construction frenzy in property.

The government allowed the private sector to move into steel in the 1990s as demand began to soar. Investors seized the opportunity—often getting cheap land from willing local governments eager to boost their economies. The land was used as collateral for bank loans, which financed usually small-scale steel mills with none of the social-welfare burdens that state-owned counterparts had to carry. Local officials often turned a blind eye to breaches of environmental and land-use regulations. Although private firms in China often complain of limited access to credit, in the steel industry the profits were potentially so great that state-owned banks lent with virtual abandon.

Mr Guo's Fosun group set its sights on companies with steel assets once controlled by the state. In

2001 it spent $42m on a 30% share in another private firm, Tangshan Jianlong Steel, which had taken over several state-owned steel companies in northern China. In 2003, it bought a controlling stake in a listed state-controlled company, Nanjing Iron and Steel, for $199m. The Nanjing and Tangshan firms later set up a steel company in Ningbo, a port city near Shanghai, named Ningbo Jianlong Iron and Steel, that aimed to produce 6m tonnes a year.

For Mr Guo, the move into an industry that was once a hallowed precinct of the Communist Party and its proletarian heroes marked a new peak in the ascent of his firm. The son of a rural stonemason, Mr Guo, now 38, had been quick to spot the opportunities provided by China's decision to embrace capitalism. His first success came in selling a testing kit for hepatitis in partnership with former classmates from Shanghai's prestigious Fudan University, where he had studied philosophy.

Like many a successful entrepreneur in China, he then propelled himself to great riches in the property business. Some people talk of a property bubble emerging in Shanghai, but not Mr Guo. Fosun's real estate arm, Shanghai Forte, raised $221m last year in a listing on the Hong Kong stock exchange. Mr Guo says the group's profits last year amounted to about $400m. And he dismisses the impact of the collapse last year of another big investment firm, D'Long, which heightened banks' concerns about lending to companies like his. *EuromoneyChina*, a regional publication, ranked Mr Guo as China's 17th richest person in 2004 with a net worth of $400m.

But the government's unpredictable lurches are a hazard for China's new capitalists. In late 2003, it decided to rein in the steel industry, worrying that excess investment, particularly in low-grade steel, was pushing up raw material prices and creating a glut. Last April, investors in new projects were required to put up at least 40% of the capital in order to secure loans, up from 25%. They also had to meet higher technical and quality standards.

To reinforce its position, the government in March closed down one of the biggest new private projects, Jiangsu Tieben Iron & Steel in Changzhou, 150km (94 miles) north-west of Shanghai. Tieben allegedly violated land-use regulations and failed to gain the necessary approval from Beijing for its investment. Tieben's owner, Dai Guofang, who wanted to make his steel company the biggest in China, was thrown into jail where he still awaits trial.

Then in July, the authorities' attention turned to Mr Guo's project in Ningbo. It too was accused of violating land-use regulations and failing to get necessary approval for some $1.3 billion of investment. Unlike Tieben, the Ningbo plant was on the verge of starting production. Having made its point with Tieben, the government has taken a less draconian approach with Ningbo. The project appears set to resume, but on condition that it merges with a state-controlled firm, Hangzhou Steel, which according to a deal still being finalised would likely acquire the biggest share (though not a controlling one). The government has failed to pursue state-owned steel-firms with equal vigour, even though they are no better at following the rules.

## Friends in high places

Mr Guo's good official standing may have saved Ningbo from a worse fate. He is an adviser to the Shanghai government, a member of the national legislature and has been named as a “model worker”—a rare accolade for someone in private business. Mr Guo is also a member of one of the handful of compliant political parties allowed by (and effectively controlled by) the Communist Party. He is a senior member of Shanghai's state-controlled federation of industry and commerce. In Chinese business, such labels can be very useful assets.

Mr Guo is encouraged by a government document issued in February that allows private investment in any business not banned by law and supposedly guarantees equal access to bank

loans. The official media said the document was the first devoted entirely to promoting the interests of private business since the Communist takeover in 1949. But few, including Mr Guo, believe that the problems of making it to the top in China are over.

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Economist.com BUSINESS

The drugs industry

# An overdose of bad news

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Alamy

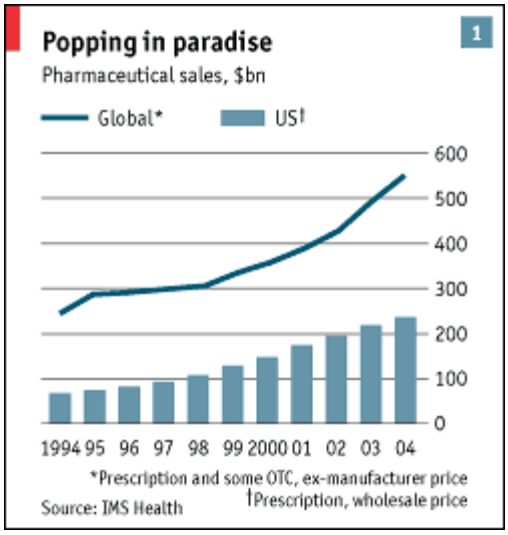
**Can big drug companies recover from a recent string of problems?**

IT HAS all gone horribly wrong for the dozen or so manufacturers that make up “big pharma”. The withdrawal of high-profile drugs, growing suspicion among consumers about drug companies' ethics, and arguments with regulators and customers have all dented what until recently was one of the least-tarnished of industries. A string of books has attacked the marketing tactics used by the industry, while lamenting the diminishing returns from its much-touted search for new drugs. Some observers have questioned whether a business model that was once capable of producing huge and reliable profits has been irreparably damaged. The industry is struggling to come to terms with a changing environment in its biggest and most lucrative market, America.

What happens in America is critical to the future of all the biggest drug firms. Prices there are mainly set by the market, not penny-pinching governments as in Europe and much of the rest of the world. It is also where the drug firms have chosen to place much of their research. America is by far the world's biggest spender on health-care in general—a whopping $1.8 trillion, more than 15% of GDP last year alone—and on pharmaceuticals in particular.

Last year, America accounted for more than 40% of the world's $550 billion pharmaceutical market, according to IMS Health, a consultancy (see chart 1). Moreover, the prices of many branded drugs can be significantly higher in America than elsewhere. A recent report from the Department of Commerce, looking at international prices of 54 leading prescription medicines, concluded that the average price charged by manufacturers in Canada, Britain and Australia was roughly half that in America in 2003 (though US discounts narrow this gap).

And it is in America that drug firms are facing the loudest and fiercest criticism. They stand accused of focusing on "me-too" drugs which confer little clinical benefit over existing medicines; rushing these to market through cunning clinical trials designed to make them look better than they are; and suppressing data to the contrary. The industry is also lambasted for expensive, aggressive and misleading direct-to-consumer advertising, which sometimes creates conditions to fit the drugs, rather than the other way round. Hobnobbing with doctors means giving them "food, flattery, friendship" at best, and outright bribery at worst. Such flames were fanned by two high-profile events last year: Eliot Spitzer's lawsuit against GlaxoSmithKline (GSK) for allegedly suppressing data linking antidepressants to suicide risk in children (which later prompted initiatives to disclose clinical trial results) and the recent scare over the safety of COX-2 inhibitors, a class of pain-killers, following the withdrawal by Merck of one of these called Vioxx.




Indeed, critics argue that society is largely on the losing end of its dealings with the industry. Drug firms benefit tremendously from public largesse, be it basic research from universities and government-funded laboratories, or tax breaks on R&D, yet fail to reward this by putting a brake on pricing. For their part, drug firms argue that in order to keep innovation moving, they must maintain high prices, and therefore high profits. Yet many Americans doubt these arguments. A poll conducted last month by the Kaiser Family Foundation found that only 14% of the 1,200 Americans surveyed believe that current drug prices are justified because of the high cost of R&D, and that 46% favoured greater government regulation of drug prices, although this might lead to lower profits and therefore less research.

Big drug firms are having a hard time defending the argument that higher profits mean more innovation. New drug launches have slowed to a trickle in recent years. Companies plough 15-20% of their revenues back into R&D; global spending on pharmaceutical R&D has doubled over the past decade, to $56 billion this year according to CMR International, a research group. Yet the number of new drugs approved by the FDA—a rough measure of productivity—fell to a low of 18 in 2002.

## Trials and tribulations

Drug development times are lengthening, and 50% of all drugs still fail in mid- to late-stage clinical trials. But things are slowly perking up in the laboratory, says Stuart Walker, head of CMR. Last year the FDA approved 34 new drugs and there are signs that early-stage pipelines are filling up with new compounds for cancer, diabetes and central nervous system disorders. Many of these new drugs actually come from nimble biotech companies. They pass their products—for handsome rewards—to bigger drug firms, which then do clinical trials, register the drugs with regulators and market them.

However, this does little to impress many investors, who have had enough of the industry's talk on breakthrough drugs. Stewart Adkins, an analyst at Lehman Brothers, reckons investors are simply discounting products that have not reached late-stage clinical development; everything else is seen as too risky to put a value on. Yet many firms are putting their faith in their pipelines and current business models to get them out of the current mess, says Richard Balaban, a consultant with Mercer. This will not be sufficient, he argues, to win back the trust of their three key

customers: patients, payers and physicians.

Changes in sales and marketing might help. Pharma firms spent a whopping $14.7 billion on marketing to health-care professionals last year, and at least $3.6 billion on direct-to-consumer advertising, according to Verispan, a market researcher. Drug firms now spend a third of their sales revenue on marketing and administration, on a par with Coca-Cola and Nestlé.

This infuriates critics, who argue that the firms could easily lower prices and find savings on promotions without touching their precious R&D budgets. For its part, the industry points to the public-health benefits of marketing—doctors are kept up to date with developments and the public is informed of lurking medical conditions.

Both forms of marketing are under attack. As John Schaetzl, an analyst with GE Asset Management, points out, the COX-2 mess is a case where aggressive promotion using mass marketing to create a blockbuster drug has resulted in the inappropriate use and consequent withdrawal of a medicine that undoubtedly benefits some patients. An FDA advisory committee recommended last month that the COX-2 inhibitors stay on the market (and that even Vioxx might make a limited return), but with stricter warnings on their labels about their cardiovascular side-effects. The committee also recommended tighter restrictions on consumer advertising of the COX-2 medicines and—given the steady stream of warnings the agency now issues to firms about various claims—might extend these to other drugs.

As for marketing to doctors, Jerome Kassirer, a former editor of the *New England Journal of Medicine* and author of *On the Take*, wants to see it stopped altogether—no more gifts, no more industry-sponsored training courses, no more visits from salesmen and free samples. Various codes of conduct have been promulgated by medical schools, professional bodies and industry associations. Several pharmaceutical firms have been investigated by the Department of Justice for dodgy dealings with doctors.

Economics, more than ethics, may force the pace of change. There are roughly 102,000 pharmaceutical “detailers”, or salesmen, all trying to meet the top-prescribers among America's 870,000 physicians. They get only a few minutes with the doctor, not much time to sell the fruits of modern science. There is a growing realisation—if not yet dramatic action—that the industry's marketing model needs to slim down and take a new shape to boost returns. Some firms are turning their drug development away from mass-market blockbusters to specialist products, which need smaller salesforces to target fewer doctors, who tend to make more time for such products.

A few bosses, notably Jean-Pierre Garnier of GSK, have questioned the traditional approach. But all eyes are on Pfizer, which employs more than 10% of America's sales reps and might announce some changes to its sales and marketing operations next month. “Pfizer ushered in the rat race,” says Viren Mehta of Mehta Partners, a consultancy. “Only it can reverse the industry's direction.”

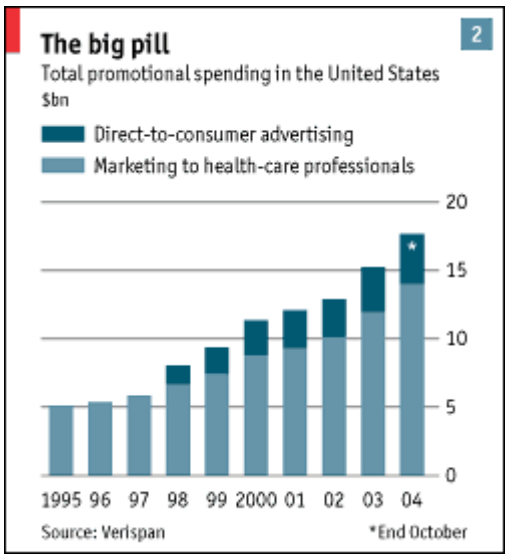
The industry is also struggling with another central element of its business model: its reliance on patent protection for high-profile blockbuster drugs. Lehman Brothers reckons that, at best, drugs worth $8.8 billion will face generic competition; at worst, $15.5 billion-worth of branded drugs will meet their copycat makers in America. As the past few years have shown, the expiry of a patent on a blockbuster drug—such as Prozac—can be a painful experience for a drug firm, wiping billions off its market capitalisation. Alas, many of the tactics firms use to tighten their grip on their intellectual property are also coming under fire.

## Patent medicine

This year's patent litigation has special significance for the whole industry, not just the individual

companies involved. Generic drugmakers are challenging the big companies in court over three blockbuster drugs—Zyprexa for schizophrenia, Lipitor for high cholesterol and Plavix for heart attacks and strokes. These lawsuits question the original “composition of matter” patents on these products, not just the industry's efforts to spin out protection for a few more years of profit. If any one of these were to go against the big companies, it would affect the whole industry.

Then there are the lingering side-effects of the Vioxx withdrawal. There have been drug withdrawals before—nine of them between 1997 and 2000. But for all the trouble this episode has brought Merck—including a federal investigation and hefty lawsuits—the latest controversy is about more than one drug and one company. While the FDA is likely to accept its advisory committee's recommendations on COX-2 inhibitors, the affair has highlighted the question mark over the future of so-called me-too drugs, and is forcing R&D managers to take a hard look at their pipelines across all therapeutic areas.




The last thing a beleaguered industry needs is a troubled regulator. But the FDA is under pressure too, accused of putting new drug approvals—funded by the industry—before drug safety. There are several bills before Congress to improve drug-safety monitoring and the agency itself will fall under Capitol Hill's spotlight this year. In recent months, however, the FDA received a little pain relief. Lester Crawford, its acting head, may be appointed on a permanent basis. He is seen as a safe pair of hands, rather than a revolutionary bent on wholesale reform of the agency.

Last month the government also announced the creation of a new independent safety board to oversee drugs once they come to market, as well as the introduction of new ways of communicating safety issues to the public. Although still short on details, the proposal is said to bring together officials from the FDA's existing offices of new drug approvals and drug safety—more rivals than colleagues, according to some observers—along with other experts, to assess and report regularly on safety issues to the head of the FDA's drugs division. While this does not go far enough for some critics, others are on the lookout for signs that the agency is drifting too far to the side of caution, for example by demanding bigger, longer trials and slowing down the approval of innovative, but potentially riskier, medicines.

As if it did not have enough problems, the industry cannot ignore complaints over pricing. Americans pay vastly different amounts for any given medicine, depending on who is footing the bill. Not surprisingly big purchasers, such as state-funded Medicaid programmes for America's poor or managed-care plans for big employers, get among the best deals.

The clamour for lower prices grows ever louder. One strategy is so-called “reimportation”—bringing in drugs from abroad. An estimated $700m-worth of pharmaceuticals flowed into America from Canada in 2003. The busloads of elderly Americans crossing the border to buy drugs have been joined by mayors from several cities and legislators from several states, looking to ease the passage of pharmaceuticals from Canada—especially through internet pharmacies.

## Drugs without borders?

The Bush administration (and indeed the drugs industry) takes a dim view of such free trade. Personal importation of most foreign pharmaceuticals is technically illegal, though authorities tend

not to enforce the law. A report late last year from America's Department of Health and Human Services said that individual Americans buying drugs from abroad are running “a significant risk”, arguing that the quality of such products is hard to verify. It did, however, suggest that safety might be more easily monitored if the drug traffic was run by authorised commercial wholesalers, rather than individual patients.

Congress will take up the issue of reimportation this year. But few expect it to make much of a dent in pharmaceutical sales in America, nor in American frustration at rising prices. Canada is already working on ways to restrict sales south of the border, in part from fear that it will face drug shortages of its own, as drug firms move to restrict supplies.

Then there is Medicare. Thanks to the Medicare Modernisation Act of 2003, the federal government will start covering many of the outpatient drug costs of America's pill-popping elderly. This means that, by 2006, the government will account for 45% of all drug spending in America. The drugs industry, excited by the prospect of increased volumes, took further comfort when the act stipulated that the government would not negotiate directly with companies over prices.

But as Rami Armon, a policy analyst with Lehman Brothers, points out, those implementing the programme—pharmacy benefit managers and managed-care firms—will be expected to find discounts. Indeed, given the drug benefit's ten-year $593 billion price tag and the looming insolvency of Medicare, firms offering the best prices by driving the hardest bargains with drugmakers are more likely to get the government's custom. In fact, the Centre for Medicare and Medicaid Services, which administers America's two big government-sponsored health-insurance programmes, is quietly getting on with collecting data and evaluating the effectiveness of various medical interventions it pays for—including drugs. If this data were to be used to decide whether or not a drug purchase should be reimbursed, it could have enormous implications.

State legislatures are already familiar with the difficulties of reining in drug spending. Roughly 15% of their budget goes towards paying for Medicaid, and with many facing straitened circumstances cutbacks are in order. State governments also cover their own employees and are equally keen to get a grip on these health-care bills. Pharmaceuticals are the easiest target, says Kevin Outterson, a law professor at the University of West Virginia and adviser to the state's officer on drug pricing. The drug companies are multinational, whereas hospitals and doctors are staffed by local people who are unlikely to vote for anyone who wants to reduce their funding. In addition to paying their own drug bill, states are worried about losing jobs if companies move away because of high health-care costs.

States are trying a variety of tactics to control central drug costs, from fixed formularies, reimportation (if not from Canada, then from Britain or Ireland) and pooling their resources to buy in bulk to extending the discounts negotiated through Medicaid to larger populations and to even more radical measures, such as compulsory licensing. Drug companies have made some concessions—for example, offering discount cards to older Americans or those without health insurance. On the whole, the drugs industry is not pleased with state stratagems, says Sharon Treat, head of the National Legislative Association on Prescription Drugs Prices, and does its best to lobby and sue against price controls.

## How to negotiate

But a few states have been successful. The Wisconsin Department of Employee Trust Funds, which covers 240,000 public workers, retirees and their dependants, managed to reduce its drug bill by 23% last year, while maintaining the same level of prescriptions. The secret, says Eric Stanchfield, head of health-care purchasing, was a strict reimbursement list based on drugs' clinical effectiveness, a pharmacy benefits manager with transparent accounting and a willingness to be

tough in negotiations with drug firms. The programme is so successful that the governor plans to expand it to cover the uninsured, and General Motors has also been taking a look.

Another part of the Fund invests $2.9 billion of pension money in drug shares every year. Mr Stanchfield, who is also a trustee of the pension fund, believes that price concessions make pharmaceutical firms more appealing to investors because they put firms on a more sustainable footing. “If I were big pharma with lots of unhappy people and the prospect of price controls, I would embrace changes such as ours. What is the alternative?”

Well, the big drug firms could fight their customers. But that would risk harsher intervention by governments that are already intent on influencing drug pricing and marketing mechanisms. Even if they avoid that, it seems certain that the world's biggest drug firms are going to have to change in fundamental ways.

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Economist.com FINANCE & ECONOMICS

American International Group

# Hank yanked

Mar 17th 2005 | NEW YORK
From The Economist print edition

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**Regicide in the insurance industry**

FEW leaders of big American companies dominated their firms as completely as Maurice “Hank” Greenberg; few stood so large in their industry. It is often said, only half in jest, that American International Group (AIG) had a flat management structure, with 90,000 employees all reporting to Mr Greenberg. Anyone could get a call from Mr Greenberg at any time—even on holiday—demanding in the harshest terms information in the tiniest detail. On the other hand, AIG employees rushed to hospital could be greeted by a message from the boss, who somehow had learned of their plight and had taken steps (engaging a noted doctor, perhaps) for their care.

Despite being 79 years old, and having led AIG since 1968, Mr Greenberg seemed more determined than anyone else in the insurance business to stick around. Any mention of retirement would be brushed aside. Although Mr Greenberg had acceded to a succession plan, this was to be revealed only if he dropped dead.

And yet, on March 14th the world's biggest insurer said that Mr Greenberg was stepping down as its chief executive, to become non-executive chairman. The precise reason is unknown, but no one believes that his resignation was voluntary, and everyone believes it is connected with AIG's continuing regulatory troubles. On March 15th Mr Greenberg and Martin Sullivan, the new chief executive and an AIG veteran, presided over a meeting with securities analysts that provided no insight at all into either the reasons for the change or the various investigations currently swirling around the company. They also declined to say why the company's chief financial officer, Howard Smith, had decided to go on “leave” at the same time as Mr Greenberg stood down.

The most commonly held theory is that Mr Greenberg was laid low by transactions he personally

arranged in 2000 with General Re, a reinsurer now owned by Warren Buffett's Berkshire Hathaway, that had the appearance of boosting AIG's reserves without actually doing so. Although Mr Greenberg was a careful executive who largely avoided e-mails, General Re apparently did keep detailed records. It has since changed chief executives. Berkshire Hathaway has said that it is co-operating with regulators' inquiries.

This is not AIG's only problem. Four former employees have pleaded guilty in a bid-rigging case centred on Marsh & McLennan, the world's largest insurance broker. (Marsh's chief executive, Jeffrey Greenberg, Hank's son and formerly his chosen successor at AIG, had to resign last October. Hank's other son, Evan, also once his designated successor, is chief executive of ACE, another large insurer being investigated in the bid-rigging scandal.) In the past two years, AIG has reached settlements, without admitting guilt, with the Securities and Exchange Commission and the Department of Justice over the sale of insurance policies to PNC Financial, a bank, and Brightpoint, a technology company. The regulators had said that these masked financial performance rather than providing insurance.

Regulators are also scrutinising Mr Greenberg's attempts to put pressure on specialists on the floor of the New York Stock Exchange (NYSE) to support AIG's share price in 2001, while it was consummating the acquisition, paid for with stock, of American General. Mr Greenberg's efforts included lobbying the NYSE's then chief executive, Richard Grasso. At the time, Mr Greenberg sat on the compensation committee of the NYSE. Mr Grasso's pay is the subject of its own investigation.

Given all this, it is perhaps surprising that Mr Greenberg is to remain as AIG's chairman rather than being asked to depart altogether. The company's board is reported to be reconsidering whether he should stay. The regulatory troubles have weighed on the company's share price: at $60-odd, it is well below its highs, above $100, of late 2000, despite record earnings and a strong insurance market. The share price fell by nearly 4% in the week before Mr Greenberg's resignation was announced. His retiring from the chief executive's job seems to have dented the price a little bit more: the share price fell by another 5% on March 15th.

**During most of Mr Greenberg's tenure, AIG was the rare insurer that managed to combine fast growth with apparently low risk**

The question now is whether AIG is finally losing its aura of impregnability. During most of Mr Greenberg's tenure, AIG was the rare insurer that managed to combine fast growth with apparently low risk. Wall Street analysts fell over each other to praise the company and it was one of the very few to enjoy top credit ratings from all the main agencies. This enthusiasm sprang partly from admiration for AIG's remarkable performance, but there was a darker side as well. Mr Greenberg was infamous for browbeating not only analysts who questioned AIG, but their bosses too. One analyst who told *The Economist* that AIG's shares were over-valued relative to its competitors received an unscheduled visit from the company's lawyers, who brought a pre-written retraction for him to sign (he declined). The company parcelled out its legal work among all the top law firms. This created a conflict of interest for any such firm representing anyone in legal action against AIG.

Only recently have cracks begun to emerge. One brave analyst at a big investment bank now rates AIG's shares merely as “hold”, not “buy”. And following the announcements on March 14th, the three largest rating agencies rethought AIG's AAA rating, long a feature of the company's advertising: Fitch downgraded the parent company a notch, while both Moody's and Standard & Poor's warned of possible downgrades. AIG claims that the agencies' moves will not have any significant financial consequences. All that can be said, though, is that they will not reduce the company's financing costs.

With the agencies pondering and regulators probing, there may be more reason for analysts, investors and others to ask questions about the details of AIG's business. Although AIG has responded to criticism by becoming more open in the past two years, its operations remain fairly murky. In its foreign operations, for example, it has long trumpeted its courtship of China, as well as its involvement in 130 different countries. Yet because AIG pools its results from foreign operations, it is difficult to understand precisely how, and where, it makes money. It is thought that Japan, thanks both to the company's dexterity in that market and to government restrictions on other foreign firms, provides a disproportionate share of profit. AIG is also strong in the Philippines, having been established before laws were passed in the early 1970s limiting the ability of foreign companies to set up shop.

The effect of Mr Greenberg's departure—if he really is going—on AIG's management will be worth watching. Mr Sullivan, although he began in the company decades ago, is unlikely to have Mr Greenberg's detailed control of the organisation. Never having presided over the life-insurance division, for instance, he is likely to rely on other divisional managers.

It may be that some of the top brass will leave now that the battle for the succession is over. However, AIG's opaque compensation scheme for senior managers, administered through a Panamanian corporation named Starr International, will ensure some loyalty. There are, it is said, several billionaires besides Mr Greenberg in its top ranks and others worth hundreds of millions. The scheme has some odd quirks, in as much as Starr International is controlled by Mr Greenberg and it is not clear that he must surrender this role. A fight of some sort is not out of the question.

If Mr Greenberg had quit at, say, 65 or 70, his legacy would be unmatchable. The baseball player from whom his nickname was taken, “Hammerin'” Hank Greenberg of the Detroit Tigers, had the opposite problem. A star in the 1930s, he lost the prime of his career because he joined America's front-line forces in the second world war. A grateful industry still put Hammerin' Hank in the Hall of Fame. Better to go too soon than to stay too long.

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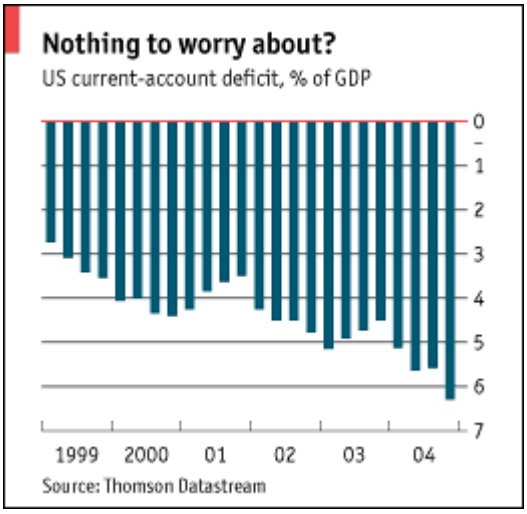
Economist.com FINANCE & ECONOMICS

America's current-account deficit

# Wide gap, wide yawn

Mar 17th 2005
From The Economist print edition

**America's central bankers are too complacent about the current account**




CENTRAL bankers are paid to worry. But top officials at America's Federal Reserve appear quite relaxed about the country's current-account deficit, just as it hits a new record. According to figures released on March 16th, the deficit widened to 6.3% of GDP in the fourth quarter of 2004. To sustain it for a year, America would have to borrow a net $750 billion.

An odd moment, then, for the Fed to send sanguine signals. But that was the message from speeches by Alan Greenspan, its chairman, and Ben Bernanke, an influential governor, given only days before the latest figures were released. Mr Greenspan's thesis was not new. He has argued before that integrated global capital markets allow the world to transfer its savings to America with much less strain than in the past. But the tone was noticeably more upbeat this time. Rather than emphasising that foreigners might tire of buying American assets, he suggested there was little sign of that. And any eventual adjustment would bring only “modest risk of disruption”. In other words, don't worry about a dollar crash.

As Mr Greenspan says, America has so far attracted the capital it needs with relative ease. Net foreign portfolio investment jumped to $91.5 billion in January, far more than that month's trade gap. Economists at Goldman Sachs reckon that in 2004 America paid interest rates of just 3.25% on foreigners' hoards of Treasury and agency securities. But rates are rising, even as the stock of debt is increasing. Goldman Sachs reckons that servicing foreign-held Treasury, agency and corporate bonds will cost America up to 0.5 percentage points of growth in the coming years.

Mr Bernanke's opinion was bolder. Contrary to popular belief, he argued, the current-account deficit was not primarily “made in the USA”. It had less to do with American actions—whether the big budget deficit or low household saving—than with a “global saving glut” created largely by emerging economies. In 1996, he points out, the developing world was a net borrower, running a joint current-account deficit of over $87 billion. But after a string of financial crises, it became a big net lender. By 2003, the developing world was running a surplus of $205 billion.

This glut of saving, he points out, must be offset by a dearth elsewhere. In other words, the poor world's determination to live well within its means has forced America to live well beyond its own. America's current-account deficit, Mr Bernanke argues, is the “tail of the dog.”

Innocent of causing the current-account deficit, America's policymakers can also do little to resolve it, Mr Bernanke suggests. He cited a recent Fed study, which reckons that cutting America's budget gap by a dollar would knock less than 20 cents off the trade gap.

This may play well in the White House (no small concern for Mr Bernanke, who is keen to succeed Mr Greenspan when the chairman retires next January). But it downplays America's responsibility for its fate. After all, the two biggest global policy shifts in recent years—the White House's move from budget surplus to deficit and the Federal Reserve's decision to slash short-term interest rates—were both emphatically made in America. Both helped prop up the global economy, but they also aggravated external imbalances.

Mr Bernanke insists that cutting the budget deficit is worth doing for its own sake. His boss, Mr Greenspan, preaches fiscal virtue at every opportunity. But by suggesting that budgetary restraint may not do much to help the current account, Mr Bernanke's logic risks undermining what little enthusiasm Washington's politicians now have for fiscal discipline. Central bankers are paid to worry. Perhaps America's need to worry a little more.

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Economist.com FINANCE & ECONOMICS

OPEC

# The central bank takes stock

Mar 17th 2005
From The Economist print edition

## Saudi Arabia feels your pain

Corbis

**Expensive load**

BEFORE this week's meeting of the Organisation of Petroleum Exporting Countries (OPEC) in the old Persian capital of Isfahan, Saudi Arabia's oil minister, Ali Naimi, had soothing words. “We care about consumers,” he said, “especially in the developing countries, and we don't want to hurt them.”

To anyone suffering as oil prices have climbed, Mr Naimi's remarks will come as a surprise. After all, it was Saudi Arabia that masterminded the revival from $10 a barrel in 1999. The Saudis worked out that watching OECD countries' stocks, and slashing OPEC output if they rose, was a superb way of propping up the oil price. The Saudis long maintained that they wanted to keep prices in the $20s or low $30s. Prices have risen nonetheless: West Texas Intermediate topped $56 for the first time on March 16th, the day the cartel met.

It now seems, though, that Saudi Arabia does want prices to fall a bit. The Isfahan meeting was expected to be a routine affair, at which the cartel merely rolled over its production quotas. Because global oil consumption always falls in the second quarter, as demand recedes from its peak in the northern hemisphere's winter, raising quotas now seemed an odd idea.

And yet, at Saudi Arabia's insistence, that is precisely what OPEC has done. The cartel has agreed to lift its quota ceiling by 500,000 barrels per day (bpd) immediately, to 27.5m bpd, the highest ever, and to raise it by the same amount soon if market conditions warrant. Most cartel members are already cranking out all they can, however. That is why, argues Vera de Ladoucette of CERA,

an energy consultancy, ministers essentially blessed efforts by Saudi Arabia, Kuwait and the United Arab Emirates (the only cartel countries with any spare capacity) to raise output.

The deal would not have happened without Saudi bullying. Most members, including Iran, this week's hosts, opposed expanding output; some, like Venezuela, have expressed a desire for still higher prices. But the Saudis said that they would raise output with or without the approval of other members.

Ms de Ladoucette is convinced that the Saudis “want to put a lid on prices”. They have historically been a voice of moderation within OPEC. Lately, they have said that they would like to see prices stay between $40 and $50; but they fear prices could shoot up to $60 or higher. In the past, they maintained a large buffer of spare capacity that allowed them to boost output quickly to cool prices. That earned them the nickname of the “central bank of oil”.

Because years of under-investment nearly wiped out that buffer, the Saudis have been powerless to cool prices recently. This has worried the International Monetary Fund into giving warning that OPEC must expand spare capacity to 3m-5m bpd to ensure the health of the global economy. The Saudis now seem serious about reining in prices. They have embarked on the largest expansion programme in many years, and aim for a buffer of 1.5m-2m bpd. They have unilaterally raised output in recent weeks. Mr Naimi now says he actually wants to see oil stocks grow in coming weeks, so that the world could weather a sharp surge in demand next winter.

Vincent Lauerman of the Canadian Energy Research Institute, a think-tank, says this is “absolutely a U-turn.” A global build-up of stocks, he reckons “is the quickest way for OPEC to increase supply flexibility in the market.” He notes that it will take time to rebuild spare production capacity, especially when world oil demand is growing at 2m bpd or more a year.

Whether the Saudis will succeed in moderating prices remains to be seen. This week's new record suggests that someone is betting against oil's central bank.

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Economist.com FINANCE & ECONOMICS

A bank scandal in China

# China Corruption Bank

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From The Economist print edition

**The latest bank scandal suggests that China is too hasty to float its big lenders**

EVEN in a country where thousands of public officials and private businessmen abscond with millions of dollars each year, it is not every day that the head of the third-largest bank is turfed out for graft. The removal of Zhang Enzhao as chairman of China Construction Bank (CCB), allegedly for taking bribes either in exchange for approving soft loans or for manipulating purchases of computer equipment, was reported in the Hong Kong press on March 15th. The bank has confirmed Mr Zhang's resignation, and has appointed Guo Shuqing, a central-bank official, as its new party chief—a job that tends to go with the chairmanship.

Mr Zhang's fall comes at a bad time for China's state banks. CCB already faces four other embezzlement cases, all uncovered since September. More than 50 staff are accused of stealing a total of over 700m yuan ($85m). Mr Zhang's predecessor, Wang Xuebing, was sentenced to 12 years in prison in 2003 for misdeeds when he was a junior official at the Bank of China (BoC). That bank, meanwhile, is investigating a fraud at its office in the northern city of Harbin. Mr Zhang's seniority and CCB's position as the leading reformer among the state's big four lenders mean that corruption can no longer be written off as a minor problem in a few rural branches.

The government contends that graft is not increasing: it is merely that more is coming to light as the industry is restructured. Paul Coughlin of Standard & Poor's concurs: “As the banks improve internal audits and centralise management, they will uncover more fraud.” That Mr Zhang has been publicly called to account, rather than quietly shuffled to another top job, as might have happened a few years ago, looks like a step forward. And the China Banking Regulatory Commission (CBRC) has become much stricter. In February, it exhorted the banks to tighten risk controls and guard against “irregular activities”. According to a source close to the CBRC, the regulator acted with alacrity this time—placing Mr Zhang under house arrest on March 11th, initially on suspicion of only minor transgressions—because it was tipped off by its American counterparts.

However, all this activity merely reveals the scale of the task of cleaning up China's banks. Mr Guo, then at the central bank, told the official media this month that CCB had disciplined 40,000 employees and BoC at least 18,000 for misappropriating funds and making unauthorised loans. Signs of widespread corruption are likely to set back the next stage in the banks' ambitious reform plans. The government plans to list three banks on the Hong Kong, Shanghai or possibly New York stockmarkets this year. Bank of Communications (BoCom), the fifth-biggest, is set to raise $2 billion, followed by a $5 billion-10 billion flotation of CCB and a $4 billion-5 billion offer from BoC.

But investors, particularly foreigners, may now demand a delay, a lower price or both. Mr Zhang's case “has an enormous impact,” says one senior banker in China. “How do you convince foreign investors that this is a one-off?” People close to CCB were adamant that its listing would go ahead this year, perhaps at a lower price, if Mr Zhang was replaced quickly. “There is no blind panic. Better now than in three months,” says one observer, who adds that Wen Jiabao, the prime minister, recently urged that bank reform should be accelerated, despite the scandals.

Others, however, are more cautious. Zhu Min, head of restructuring and listing at BoC, told *The Economist* last year that as far as the timing of a flotation was concerned: “The first issue is whether we are ready; the second issue is whether we are ready; the third issue is whether we are ready.” It is significant that, despite courting by the Chinese, no big international bank has yet bought a stake in CCB or BoC, though HSBC owns 19.9% of BoCom.

Much therefore hangs on the next few months. The government has an incentive to rush the banks to market—partly to maintain the momentum of reform but largely to outpace an economic slowdown. Even a soft landing is expected to produce a new wave of non-performing loans that could make the banks look less attractive to investors.

But such haste carries big risks. Because the banks' flotations would be the country's most prominent and ambitious yet, any corruption unearthed once they are public would damage investor confidence badly—not just in the banks, but in other Chinese companies too. That could bring investors' enthusiasm for China to a swift and premature end.

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Economist.com FINANCE & ECONOMICS

European banks

# Divided we fall

Mar 18th 2005 | LONDON AND LUXEMBOURG
From The Economist print edition

**The European market would integrate faster if its banks competed harder**

BANKERS in Europe lament that they are hobbled in global competition with American financial firms by the lack of a truly integrated home market to give them economies of scale and lashings of liquidity. They are not wrong. Where progress toward European banking integration is concerned, “could try harder” is the judgment of both a new academic study* released in Britain on March 18th and a conference of financial bosses, Eurocrats and politicians held in Luxembourg the week before.

In an earlier report, the Centre for Economic Policy Research (CEPR), a British-run network of European academics, defined Europe's financial markets as “fundamentally segmented”. Five years, one euro area and a Financial Services Action Plan (FSAP) later, it returns to the scene.

The authors find, predictably, that integration is most advanced in wholesale banking, where success is related to the ability to process commoditised transactions and gain access to large amounts of capital rather than to relationships or local knowledge. That American banks dominate this business in Europe gives the authors only a few sleepless nights.

In retail banking, by contrast, progress has been “very slow”. There have been few cross-border mergers, and these have not had much luck in capitalising on economies of scale or indeed on anything else. Prices vary greatly from country to country. The surprise, the report says, is not that integration is incomplete (only to be expected, given cultural factors such as consumers' different habits and languages); it is that market integration in some areas falls so far short of expectations.

The authors conclude that policymakers may have been barking up some wrong trees, chafing at the provincialism of syndicated bank loans, for example, while missing out on how integrated private-equity financing has become. The report shows palpable disenchantment with legislation that leaves implementation to the discretion of domestic authorities. The authors suggest more power for home-country regulators and less for hosts, tougher competition policy and stronger institutions to implement and enforce the FSAP—either a pan-European body or an inner club of states prepared to harmonise faster than the rest.

The banking bigwigs who attended the conference in Luxembourg on March 10th organised by Eurofi, a Europe-minded think-tank in Paris, also believe that integration has not gone as far as it might. Michel Pébereau, chairman of the European Banking Federation, says that modern banking has less to do anyway with physical branch networks than with providing services online and through cash machines. More cross-border competition, and more reliable consumer protection, would do wonders to integrate the market. Thomas Seale, chairman of the Association of the Luxembourg Fund Industry, says that even though his business is pan-European, it is held back by a jumble of national rules and taxes and by a lack of competition among distributors, most of which are banks. Neelie Kroes, the EU's competition commissioner, evidently agrees: she said last week that banking would be among the first targets of a unit she is setting up in Brussels to bash

cartels.

What may be holding Europe back as much as anything is the lack of a centralised retail payments mechanism—an unglamorous back-office process that is the backbone of any financial system. Here it was Charlie McCreevy, the EU's internal-market commissioner, who put the boot in. Europe's bankers have had four years to develop a European payments area on their own and they had better produce something soon, he said in Luxembourg. Mr McCreevy is known for his light regulatory touch, but he hinted that he would know what to do if they didn't.

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* “Integration of European Banking: The Way Forward. Monitoring European Deregulation 3”.

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Economist.com FINANCE & ECONOMICS

Economics focus

# Putting things in order

Mar 17th 2005
From The Economist print edition

**China ought to allow more flexibility in its exchange rate, sooner rather than later**

Get article background

THE Chinese government says that it intends, eventually, to make its exchange rate more flexible and to liberalise capital controls. In the past year or so, it has already eased some controls on capital outflows and officials have said recently that they will open the capital account further this year. On the exchange rate, much less has been done. The yuan has been pegged to the dollar for a decade, and the government is loth to change much until the country's banking system is in healthier shape: this week the prime minister, Wen Jiabao, said that a shift would be risky. But is China putting the cart before the horse? Other countries' experience suggests that it is, and that it is better to loosen the exchange rate before, not after, freeing capital flows.

Most commentary on the Chinese yuan tends to focus on the extent to which it is undervalued. It has been pegged to the dollar for a decade, and there is a widespread belief that it is unfairly cheap. In fact, this is not clear-cut. For instance, the increase in China's official reserves is often held up as evidence that the yuan is undervalued. Yet this largely reflects speculative capital inflows lured by the expectation of a currency revaluation. Such inflows could easily be reversed. Given the huge uncertainty about the yuan's correct level, it makes more sense for China to make its currency more flexible than to repeg it at a higher rate. Greater flexibility would be in China's interest: it would afford the country more independence in monetary policy and a buffer against external shocks. By fixing the yuan to the dollar, China has been forced to hold interest rates lower than is prudent, leading to inefficient investment and excessive bank lending.

The problem is that Chinese officials, along with many foreign commentators, tend to confuse exchange-rate flexibility and capital-account liberalisation. A commonly heard argument is that China cannot let its exchange rate move more freely before it has fixed its dodgy banking system, because that could encourage a large outflow of capital. A recent paper* by Eswar Prasad, Thomas Rumbaugh and Qing Wang, all of the International Monetary Fund, argues that, on the contrary, greater exchange-rate flexibility is a prerequisite for capital-account liberalisation.

Flexibility does not necessarily mean a free float. Initially, China could allow the yuan to move within a wider band, or peg it to a basket of currencies rather than the dollar alone. The authors first knock on the head the notion that the banking system must be cleaned up before allowing the exchange rate to move. Although financial reform is certainly essential before scrapping capital controls, the authors argue that with existing controls in place the banking system is unlikely to come under much pressure simply as a result of exchange-rate flexibility. Banks' exposure to currency risks is currently low and flexibility alone is unlikely to cause Chinese residents to withdraw their deposits or provide channels for them to send their money abroad.

The authors argue that it is also not necessary to open the capital account to create a proper foreign-exchange market. Because China exports and imports a lot, with few restrictions on

currency convertibility for such transactions, it can still develop a deep, well-functioning market without a fully open capital account. A more flexible currency would itself assist the development of such a market. For example, firms would have more incentive to hedge foreign-exchange risks, encouraging the development of suitable instruments. The experience of greater exchange-rate flexibility would also help the economy to prepare for a full opening of the capital account. While capital controls shielded the economy from volatile flows, China would have time for reforms to strengthen the banking system.

China instead seems intent on relaxing capital controls before setting its exchange rate free. This ignores the history of the past decade or so: the combination of fixed exchange rates and open capital accounts has caused financial crises in many emerging economies, especially when financial systems are fragile. China would therefore be wise to move cautiously in liberalising its capital account, but should move more rapidly towards greater exchange-rate flexibility.

## Yuan at a time

The Chinese have tried to offset the recent upward pressure on the yuan by easing controls on capital outflows, for instance by allowing firms to invest abroad. While this is in line with the eventual objective of full capital-account liberalisation, it runs the risk of getting reforms in the wrong order. An easing of controls on outflows may even be counterproductive if it stimulates larger inflows. By making it easier to take money out of the country, investors may be enticed to bring more in.

Capital controls are not watertight. So although China will continue to be protected from international flows, its controls can be evaded through the under- or over-invoicing of trade. Multinationals can also use transfer prices (the prices at which internal transactions are accounted for) to dodge the rules. Despite extensive controls, a lot of capital left China during the Asian crisis in the late 1990s; recently, lots of short-term money has flowed in. Controls are likely to become even more porous as China becomes more integrated into the global economy. Thus, waiting for speculative and other inflows to ease before changing the exchange-rate regime might not be a fruitful strategy.

China ought to move to a flexible exchange rate soon, while its capital controls still work. Experience also suggests that it is best to loosen the reins on a currency when growth is strong and the external account is in surplus. China should take advantage of today's opportunity rather than being forced into change at a much less convenient time.

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* “Putting the Cart Before the Horse? Capital Account Liberalization and Exchange Rate Flexibility in China”. IMF Policy Discussion Paper No. 05/1, January 2005

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Economist.com SCIENCE & TECHNOLOGY

Astrophysics

# Dark messengers

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**Can new particle physics solve astronomy's old problems?**

IF CURRENT theories of physics are correct, the observable universe of atoms and molecules is merely froth floating on a sea of dimly perceived stuff called, for that very reason, dark matter and dark energy. Dark matter is perceived through its gravitational pull on the more familiar "normal" matter of stars and galaxies, while dark energy is perceived by the opposite effect—it pushes ordinary matter apart.

Until recently, physicists of both the subatomic and the astronomical persuasions thought that, gravity and the cosmological push aside, dark matter and dark energy tended to keep to themselves. Now some of them are not so sure. Particle physicists, in particular, are beginning to think that dark matter and dark energy may actually be responsible for the loudest bangs since the big one—and astronomers are not happy that the particle boys and girls are muscling in on their territory.

Late last year, Louis Clavelli, a particle physicist at the University of Alabama, went public with the astonishing idea that gamma-ray bursts, the brightest explosions in the universe, are caused by the sudden conversion of vast quantities of normal matter into dark matter. The triggering mechanism for this catastrophe is, appropriately, dark energy.

To explain dark energy, particle physicists suggest that space exists in "phases" rather in the way that water can be solid, liquid or gaseous. The existence of dark energy shows that space does not reside in the lowest of these phases. Just as liquid water can freeze, so, in a sense, can space.

When this happens, normal matter becomes "supersymmetric". Supersymmetry is a theory devised by particle physicists to tidy up the rather arbitrary "standard model" of subatomic particles with which they now work. It invokes a shadowy world of partner particles to those of the

standard model. These provide mathematical symmetry to the particle zoo (particle physicists love symmetry) and, coincidentally, provide a plausible explanation for dark matter. That is because supersymmetric particles are much heavier than their normal counterparts.

The circumstances necessary for the shift from normal to supersymmetric matter to take place involve extreme density, but Dr Clavelli's calculations suggest that it is within the range of densities found in dead stars known as white dwarfs. These are about the same size as the Earth, but with a million times the mass. White dwarfs litter space in their trillions and, according to Dr Clavelli, any one of them could “freeze” at any time, turning its atoms into dark matter and releasing a powerful blast of gamma rays across the universe in a way analogous to water giving up its latent heat when it turns to ice.

It is a controversial idea. Astronomers have been studying gamma-ray bursts for more than 30 years, and have evolved a complex theory to explain them in terms of giant stars that become unstable and rip themselves to pieces. Dr Clavelli thinks that these efforts amount to beating a square peg into a round hole. The astronomers think the same about his theory.

Even if Dr Clavelli turns out to be wrong, the particle physicists are not done meddling in astronomy. The next shoot-out is likely to be over celestial objects called EGRET sources. Some 170 of these have been discovered. They are sources of gamma rays but, unlike gamma-ray bursts, they shine continuously. They were discovered by the *Compton* gamma-ray observatory, launched in 1991 by NASA, America's space agency, and named after the Energetic Gamma Ray Experiment Telescope (EGRET) on *Compton* that found them. So far, they have defied attempts at explanation.

Argyro Tasitsiomi, of the University of Chicago, thinks there is a chance that EGRET sources are actually clumps of supersymmetric particles called neutralinos. She has calculated that when neutralinos collide, they should give out gamma rays. That means there should be a faint wash of gamma rays passing through space, with bright spots anywhere that clumps of dark matter have formed. She hopes that NASA's Gamma-ray Large Area Space Telescope (GLAST), which is due to be launched in 2007, will provide more detailed observations to test her ideas.

Some particle physicists also invoke dark matter as a possible explanation for so-called ultra-high-energy cosmic rays. Since the beginning of the 20th century, scientists have known that there is more radiation on Earth than can be accounted for by radioactive elements in the rocks. They traced the extra radiation to a perpetual sleet of particles coming from space. Although these particles appear to be made of “normal” matter, some arrive at Earth with energies that defy traditional explanation. James Pinfold, of the University of Alberta, in Canada, thinks that dark matter may be responsible because some forms of it should decay spontaneously, spitting out an ultra-high-energy cosmic ray in the process.

Cosmic rays were among the first high-energy particles to be studied, before physicists worked out how to build the giant accelerators that they now use to make such particles. It would be a delicious irony if they turned out to hold the secret of supersymmetry—the subject's most persistent known unknown.

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Economist.com SCIENCE & TECHNOLOGY

Genetics

# The X-files

Mar 17th 2005
From The Economist print edition

**Rifling through male and female genes is starting to reveal their differences**

ONE could be forgiven for thinking that the fuss about the human genome was over. Five years ago, the politicians gave the beaming scientists a collective slap on the back and champagne corks were popped. But after the hangovers cleared, the scientists had to go back to their labs and do the job properly. The "draft" sequence they had released was just a landmark along the way.

Gradually the details of each human chromosome have been emerging. A chromosome is a set of instructions, in the form of genes, that are used in creating an organism. This week scientists have reported in the journal *Nature* that they have finally finished sequencing the X chromosome.

The X is one of two chromosomes that determine sex. Women have two Xs, while males have one X and a Y. These sex chromosomes originated between 230m and 300m years ago, evolving from the same non-sex chromosome in some ancestral mammal species. Over the course of evolution, the Y has become severely eroded by mutation, and today is stunted, with only one hundred genes. The new research reveals that the X has over 1,000 genes.

Because women have their sex genes written in duplicate, they always have a second chance of a correct version. This means they are less prone to sex-linked genetic defects. Such defects are largely why the birth-rates between boys (49%) and girls (51%) are not equal.

New work on the X has now revealed more about how differences between the sexes are determined at a genetic level. One route is the way in which this second dose of X genes is regulated. What was already known was that in each individual female cell, one of the two X chromosomes was randomly inactivated. This is so that female cells do not have twice as much genetic activity as male cells.

However, work by Laura Carrel, at Pennsylvania State University, and Huntington Willard, at Duke University in North Carolina, now shows that this inactivation is not complete. For a start, 15% of genes that were expected to be switched off (so that they do not produce proteins), actually escape inactivation.

This is a big surprise. And it means that in female cells a certain proportion of activated genes exist in higher concentrations than was once thought. The extent that this matters will very likely depend on the gene itself. As of yet, though, nobody knows what impact this has on women. The study also found that another 10% of the genes on the X are sometimes inactivated, and sometimes not. So some women might have a single dose of these genes while others will have a double dose. Furthermore, the pattern in which these 10% of genes activate seems to be different in every woman the authors have looked at so far.

The authors examined the genomes of 40 women and found that in each case, the pattern of expression of these genes was unique. Such "expression heterogeneity" was unsuspected, but is exciting because it suggests that women could be more genetically variable than men.

This kind of work is important for two reasons. The most important, though obvious, reason is to help us better understand sex-linked genetic defects in men after birth. These are important in areas such as cancer, fertility and mental retardation (males have a higher incidence).

A perhaps slightly less important, though more unexpected, reason for interest is that this work offers several new ways of exploring the genetics behind the difference between the sexes. The president of Harvard recently stirred up a storm of protest by speculating that differences in aptitude, rather than discrimination, may explain why fewer women achieve excellence in science. There is certainly no “gene for science”. But this work tells us that somewhere between 200 to 300 genes can be uniquely expressed in women. Hot pursuit of these genes now seems likely. More surprises lie ahead.

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Economist.com SCIENCE & TECHNOLOGY

Artificial life

# DN-New

Mar 17th 2005
From The Economist print edition

## A new kind of DNA

JAMES WATSON and Francis Crick earned scientific immortality by elucidating the structure of the genetic code. DNA, they showed, is a double helix formed of the base pairs of adenine and thymine (referred to as A and T for short), and of cytosine and guanine (C and G).

For some 3.5 billion years the Watson and Crick base pairs, as they are known, have been faithfully replicated by DNA polymerases, the enzymes that copy DNA. But now, for the first time since life began, a third, artificial base pair is being replicated. (RNA, which is used in various intermediate stages by many organisms, and also by viruses, substitutes another molecule, uracil for thymine, but the two are very similar.)

The unnatural molecule is 3-fluorobenzene (3FB for short), which forms a pair with itself. In Floyd Romesberg's lab at the Scripps Research Institute in La Jolla, California, 3FB-3FB joins the natural base pairs of A-T and C-G. It is the first step, says Dr Romesberg, in the expansion of the genetic code.

Why there are only two base pairs is an open question, and one which evolutionary biologists and geneticists want to answer. With Dr Romesberg's modified DNA, they might get a chance to do so. Other unnatural base pairs have been made before, notably by a Japanese group led by Shigeyuki Yokoyama, now at the Genomic Sciences Centre in Saitama. But unlike those other unnatural base pairs, the Scripps researchers say 3FB can be well replicated by DNA polymerases.

However, typos do creep into the copy when the unnatural base pair is included. A mistake typically occurs once in every 1,000 base pairs that are copied, compared with around one in 10m bases of natural DNA. But Dr Romesberg is confident he can improve the copy quality. He presented his research this week at a meeting of the American Chemical Society, in San Diego.

One way to improve copying fidelity is to evolve polymerase enzymes better able to replicate the unnatural DNA. That is one of the projects Dr Romesberg's lab is working on. If and when these enzymes are perfected, the way will be open to make simple organisms engineered to carry the new base pair.

Since such organisms (simple yeasts or bacteria) would carry a brand-new genetic code, they would in effect be new life forms. Organisms with more than the standard two base pairs would be able to make more than the standard 20 amino acids. Thus, such organisms could make novel, unnatural proteins.

That might help evolutionary biologists answer the question of why, for billions of years, and in every form of life on earth, only two base pairs are used. It might be that the two base-pair system is the best. Or it might be a simple accident which occurred when life began.

In any case, expanding the genetic code of simple organisms could lead to radical new applications for medicine and biotechnology, and to useful information storage and retrieval systems based on DNA.

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Economist.com SCIENCE & TECHNOLOGY

South African elephants

# Mulling a cull

Mar 17th 2005 | JOHANNESBURG
From The Economist print edition

**A problem born of a conservation success**

IT LOOKS likely that South Africa's park authorities will soon start killing families of elephants. Last week, Hector Magome, head of conservation for National Parks, trumpeted the news. “We are strongly leaning towards culling and we want the public to digest this hard fact,” he said. The biggest need is in Kruger National Park, in north-east South Africa. This area the size of Israel is apparently overstuffed with elephants. It has seen no cull since 1994, when there were about 7,000 animals; now there are at least 12,000.

That is good for tourists, but park managers say overpopulation threatens biodiversity. Each elephant eats as much as 170kg (370lbs) of plants a day; they are also fond of toppling trees. Swaggering herds smash woodland and disturb other species, though nobody is sure how much. The population is still growing, despite a reduction in water holes in the park. In April, Mr Magome will formally propose a cull alongside other options, hoping for a decision by the government in October.

Both juveniles and adults would be killed. Culling experts say whole family groups should be killed together because orphans, especially males, too often become aggressive when not reined in by a dominant older male. In Umfolozi National Park stunned tourists recently watched two elephants (orphaned males brought from Kruger after a cull) kill a white rhinoceros and attack her calf. Other parks that received orphans also report problem behaviour. They, and private reserves, say their own populations are now too large to accept new arrivals.

Animal activists, unsurprisingly, oppose any cull. Jason Bell, southern Africa director of the International Fund for Animal Welfare, sees no “scientific basis to justify the killing of elephants now”. He warns that aerial surveys, the usual way of counting big fauna, are often inaccurate. So nobody knows precisely the number of elephants, nor how fast the population is growing. His group funds research into another way of counting that suggests population growth in Kruger is slower than thought. They study individual groups of elephants and by both counting the young and estimating the fertility of females, arrive at an estimate for the growth rate of the entire population by extrapolation.

Nor do activists agree that it is problematic to have lots of elephants. It may not matter if there is deforestation in Kruger. The area was traditionally an open savannah landscape, not a woodland. Mr Bell and others want investigation of the impact of elephants before any cull is ordered. “So much is based on assumptions; we need a thorough scientific programme to understand the effect on biodiversity.”

If not culling, what else could be tried? Contraception has worked in some small test groups. But Kruger's managers say this is unproven on a large scale and is costly. Once a year female elephants must be shot with a vaccine from a helicopter. Mr Magome estimates 4,000 sexually active elephants would have to be darted. That is a huge task. Culling might at least (if bans were lifted) generate an income from ivory sales or from hunters who pay to take part.

The other option is setting aside more space for the growing population. Kruger is already connected with parks in neighbouring Mozambique and Zimbabwe; elephants might be persuaded to migrate over the border if more water holes were closed in Kruger. A similar effort is under way in Botswana's Chobe National Park, which is also bursting with elephants, to encourage whole families to move to a park in nearby Angola, Cuando Cubango. That depends on first clearing landmines in Cuando Cubango, and on keeping poachers away.

Even if more parks offer a long-term solution, what of the immediate pressure in Kruger? Though the park authority favours a cull, it will be unpopular. South Africa should expect the sort of outcry Canada attracts for seal bashing and Norway draws for harpooning whales. In turn, tourism could suffer—a tricky point for the environment minister, who also holds the tourism portfolio.

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# Clarification: the International Space Station

Mar 17th 2005
From The Economist print edition

In last week's article on the International Space Station, we said that the cost of completing it by 2010 would be $30 billion, and that the station and the shuttle together would cost $50 billion until 2015. It was not made clear that the former estimate, too, includes the cost of the shuttle programme.

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Economist.com BOOKS & ARTS

American justice

# Rough and unready

Mar 17th 2005
From The Economist print edition

**America's Bill of Rights pledges fairness and justice for all. But in overworked county courts up and down the land, the reality is often far less rosy**

THE United States has one of the largest and most complex criminal-justice systems in the world. Fifty state court systems, each with its own traditions and legal codes, operate in tandem with a large network of federal courts. Both state and federal systems have an elaborate ladder of appellate courts. Some of the most contentious cases begin in state courts but are then allowed to migrate to federal courts.

At the top of this hierarchy sits the Supreme Court. The promise of justice guaranteed by the Bill of Rights and the world's most durable constitution is one of the things that makes America special, even unique. Yet from the bottom of this great legal pyramid, things appear rather different. To the average criminal defendant, standing before a case-hardened judge in a local court, an overworked public defender by his side, the grand promises of the American constitution can seem a world away. Steve Bogira, a veteran reporter, spent a year in an American court to find out what really goes on there.

Mr Bogira's book is a brilliant piece of journalism and a genuine eye-opener. He supplements his acute observations of proceedings in a

Courtroom 302: A Year Behind the Scenes in an American Criminal Courthouse
By Steve Bogira

*Knopf; 416 pages; $25*

Buy it at
Amazon.com
Amazon.co.uk

courtroom in Chicago's Cook County with meticulous research which provides the context, both locally and nationally, for understanding what is going on. He also interviews many of the participants—the judge, lawyers, defendants, witnesses, even the courthouse's police guards—involved in the cases he observes. He visits the crammed jail cells connected to the county's busy courthouse, where defendants are kept before hearings. Deftly weaving all these elements together, Mr Bogira has produced a compelling narrative, that is often more entertaining than most of the cop shows which are so popular on American television.

The picture that emerges is tawdry and disappointing. At the county court level, many of the constitutional rights of which Americans are so proud have degenerated into empty formulas. The vast majority of defendants are too poor to hire their own lawyer, and receive only five or ten minutes with their public defender. Most quickly agree to a plea bargain.

Even the few trials that are held rarely seem to get to the heart of the matter. Witnesses, including the police, lie; lawyers on both sides bend or conceal the truth. Until recently, even some of the judges at the Cook County courthouse were corrupt, although the worst seem to have been caught and prosecuted for taking bribes.

Mr Bogira does not seem to have any specific agenda of his own. He does not lecture the reader or propose any sweeping reforms. But two features clearly emerge from his chronicle.

First, American courts, at least in big cities, are swamped by a flood of non-violent drug offences, most committed by addicts who continually reoffend. This unending, and unsuccessful, war on drug-use has so distorted the legal system that genuine due process, as promised by the constitution and enshrined by two centuries of Supreme Court judgments, is impossible to deliver. Instead a melancholy stream of poor people flows through what is little more than a processing centre.

Second, the taste for severe retribution which has prevailed in America over the past few decades has produced such long criminal sentences that, unless represented by an expensive private lawyer, defendants can no longer afford to exercise even the few rights they do retain. Most publicly defended accused agree to a plea bargain because of an unspoken, though very real, “trial tax”; if they demand a trial and lose, a draconian sentence will be imposed. If they plead guilty right away, they often get off much more lightly, sometimes escaping jail altogether. Judges, in other words, have been given enormous power to bully and cajole defendants, and for most defendants trials have become superfluous. Mr Bogira watches a few cases where even apparently innocent defendants agree to a plea bargain rather than run the risk of a trial conviction.

It may well be the case that impoverished defendants in other countries are not treated any better. Maybe this is the best that can be expected in any busy big-city courtroom which has to process hundreds of cases every year. Maybe. But it is not what most Americans believe their criminal-justice system to be.

By Steve Bogira.
*Knopf; 416 pages; $25*

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Economist.com BOOKS & ARTS

Development economics

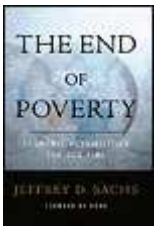
# Thinking big

Mar 17th 2005
From The Economist print edition

IF JEFFREY SACHS, itinerant adviser to poor-country governments, scourge of the International Monetary Fund, head of Columbia University's Earth Institute, United Nations' expert of choice on third-world development, and much else besides, were ever to retire (an improbable scenario, admittedly) statistics would show a perceptible downward shift in global output. The man's productivity is staggering. No sooner has the UN published its huge new report on the Millennium Development Goals, drawn up under Mr Sachs's supervision, than the phenomenon is in print again. With typical moderation, Mr Sachs has entitled his new book, “The End of Poverty”.

The book is an unusual and in some ways slightly odd mixture of personal memoir, economics textbook and development manifesto. There are chapters of economic history and analysis. These serve as a lucid introduction to the theory and practice of development. Mr Sachs tells of how he learned his business as an adviser in Bolivia, Poland, Russia, India, China and Africa—a fascinating story in its own right. In its second half the book shifts to an extended argument for new approaches to confronting disease and extreme poverty in the developing countries, and especially for far more generous aid.

The End of Poverty: Economic Possibilities for Our Time
By Jeffrey D. Sachs




*The Penguin Press; 416 pages; $27.95.*
*Penguin/Allen Lane; £20*

Buy it at
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Aid can work, the book argues fervently, but you have to think big. Even when conditions are such that aid is likely to succeed (when standards of governance are adequate, when supporting policies are in place, and so forth) rich-country governments have been mean, fickle and short-sighted about aid. Find those cases where aid can work, says Mr Sachs, spend generously, and sustain it. This central point is persuasively hammered home.

To be sure, the virtues of the book vastly outweigh its failings, just as the virtues of Mr Sachs dwarf his. Book and man are brilliant, passionate, optimistic and impatient. But Mr Sachs is not, as he sometimes appears to think, the developing countries' only hope. And he tends too often to accuse people who disagree with him of bad faith. Many of his economic conclusions are contested. Some people who are less keen than he is to spend more on aid may care just as much about poverty. Not everybody who thinks that corruption is widespread in Africa, and that corruption renders aid ineffective, is racist. “Pessimism about Africans' ability to utilise aid is very deep, reflecting an amazing reservoir of deep prejudices. I have heard those prejudices for years and have come to expect them, always with sadness.”

Not just with sadness, actually: people who disagree with Mr Sachs also make him angry, weary and disgusted. The author believes he is fighting not merely error but also widespread immorality. That is an odd stance for a man to take, who has himself often been unfairly accused of caring nothing for the “victims” of his policies.

The book is mostly clear and hard-headed about what works in promoting economic development. But it is briefly marred by some pretty soft-headed stuff about the evils of unilateralism, the war in Iraq and the moral and intellectual failings of the Bush administration. Mr Sachs states these views as though they follow from his hard-learned economic wisdom—which of course, whether right or wrong, they do not. On the other hand, Mr Sachs is far too kind to anti-globalisation activists, applauding their fervour and conviction while gently disagreeing with their policy ideas, which in fact he regards as ignorant and ruinous (why not extend the same courtesy to the Bush administration?).

And, frankly, it is difficult to forgive his invitation to Bono to write the introduction to the book. Describing his experience of campaigning with Mr Sachs, the Irish rock singer recalls, “I would enter the world of acronyms with a man who can make alphabet soup out of them. Soup you'd want to eat. Soup that would, if ingested properly, enable a lot more soup to be eaten by a lot more people.” Sorry, even if it sells more copies of this otherwise outstanding book, publishing such drivel cannot be right.

By Jeffrey D. Sachs.
*The Penguin Press; 416 pages; $27.95.*
*Penguin/Allen Lane; £20*

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Economist.com BOOKS & ARTS

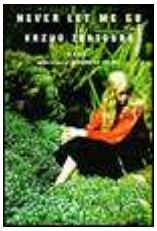
New British fiction

# Organ failure

Mar 17th 2005
From The Economist print edition

KAZUO ISHIGURO'S sixth novel is disturbing, perplexing and frustrating. It is set in the late 1990s and narrated by Kathy, a 31-year-old woman who tells the story of her life and that of her best friends, Ruth and Tommy. Kathy begins by recalling her upbringing and education at Hailsham, a seemingly idyllic boarding school set in the English countryside, where the friendships, rivalries and petty feuds of schooldays are all so realistically drawn as to be quite believable, if a little empty.

Never Let Me Go.
By Kazuo Ishiguro



*Faber and Faber; 263 pages; £16.99.*

Buy it at
Amazon.co.uk

From the book's very first pages, though, where Kathy talks of donors, recovery times and completing, the reader is inexorably drawn into a world where normality has been tipped on its head. One's curiosity is further aroused by the constant references to guardians and medicals, and the fact that Hailsham students are special and their welfare paramount. As Kathy says: “I can see we were just at that age when we knew a few things about ourselves—about who we were, how we were different from our guardians, from the people outside—but hadn't yet understood what any of it meant.”

For a long time, the reader feels the same confusion. And then, about halfway through the book, the truth begins to dawn. The children are clones, bred specifically for the purpose of donating their vital organs when they reach adulthood.

“Never Let Me Go” is an interesting book, though flawed as well. Mr Ishiguro, a renowned prose stylist whose “The Remains of the Day” won the Booker prize in 1989, writes such taut, emotionless sentences this time that they feel almost contrived; the language adds much to the book's sense of unreality, but also makes it hard to care much about the characters.

The author's decision not to incorporate any scientific or medical knowledge in the book, in direct contrast to Ian McEwan's latest novel, “Saturday”, which is peppered with descriptions of neurosurgery, means many questions are left unanswered. Who are the organs for? How can this method of harvesting be cost-effective? Why are organs not being grown from stem cells?

The most frustrating aspect of the novel, however, is the paradox of Hailsham's students being so expensively educated and taught to think for themselves, yet so fully accepting of their fate. Why do they not run away? How can Kathy, who as an adult has a love affair with Tommy, simply stand by as he prepares for his fourth donation and ultimate completion?

The premise of the story is that the clones are the same as real humans, capable of feeling human emotions. Yet by not even nodding towards these emotions, Mr Ishiguro's novel trips itself up. Thought-provoking stuff, certainly, but ultimately the style outweighs the substance.

By Kazuo Ishiguro.
*Faber and Faber; 263 pages; £16.99.*

*To be published in America by Knopf in April*

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Economist.com BOOKS & ARTS

French letters

# A tempest in petticoats

Mar 17th 2005
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JUST reading about the life of Germaine Necker, or Madame de Staël as she later became, is an exhausting business. She talked, wrote novels, plays and political treatises, travelled widely and had affairs enough for two or three lifetimes. Her social life often sounds like what might happen if a whole shelf of Penguin Classics grew arms and legs and held a cocktail party: Goethe and Schiller were invited in Germany, Byron and Coleridge in England. But she was also a determined political intriguer at an exceptionally interesting time, a player and observer in a world that was generally closed to women.

Madame de Staël
By Maria Fairweather

*Carroll & Graf; 400 pages; $30.*
*Constable & Robinson; £25*

Buy it at
Amazon.com
Amazon.co.uk

Madame de Staël was introduced to politics by her father, the king of France's money man. A latter-day Alan Greenspan, whose presence at the treasury reassured the banks, Jacques Necker managed to convince public opinion that the heavily-leveraged monarchy was in fact in sound financial shape. It wasn't. The debt crisis became political, the Estates General were summoned to raise new taxes, and the king's authority slipped quietly away.

But Madame de Staël became much more than her father's child. His money helped: Miss Necker's marriage to the Baron de Staël, a spendthrift Swedish aristocrat with an eye on the main chance, ensured her position at court as the wife of the Swedish ambassador. Soon it was she, rather than the ambassador, that people came to see, lured by her reputedly brilliant conversation. She had a functional view of the marriage and had four children by other men, a constant source of torment to her prissy Swiss mother.

Maria Fairweather's biography is rich in details and anecdotes about her subject. Madame de Staël's position as a notorious, powerful, subversive, intellectual woman (and a world champion networker) meant that she encountered an awful lot of people who felt the need to record their impressions of her in diaries and letters. These are mostly the same: she was generous, brilliant, had big eyes, loved turbans and low-cut dresses, and was not beautiful. Some took the last as an affront: how dare a woman be so forthright and so ugly? An open letter to Madame de Staël "on behalf of the French people" published in one of the revolutionary journals, is typical of the venom she attracted: "it is not your fault that you are ugly, but it is your fault that you are an intriguer," the anonymous author wrote.

The thickness of this material leaves no room for the sounds and smells of the crowds, cafés and political clubs of revolutionary Paris. Perhaps this is forgivable: Madame de Staël's kingdom was, after all, the drawing room. And Lady Fairweather, the wife of a retired British diplomat, is good on the details that mattered there. Benjamin Constant, Madame de Staël's most brilliant lover, had his hair cut *à la Brutus* to flaunt his republican credentials. Once Robespierre was executed, some young aristocrats wore their hair piled on top of their heads, in imitation of the coiffure necessary to show the neck to the blade of Monsieur Guillotine's machine.

The author's love of her subject, which she announces in the introduction, sometimes leads her to be too soft on Madame de Staël, who could be frighteningly self-centred and was prone to hissy fits. Despite turning down Constant's repeated marriage proposals, for example, she forbade him from marrying anyone else. When he disobeyed her in secret, his unfortunate bride became fed up with being hidden away and took poison. When revived, she said that unless the marriage was acknowledged, she'd try again. Madame de Staël tried to go one better: if Constant made the marriage public, she said, she would stab herself. One of the puzzles of Madame de Staël's life is that while breaking all the rules about how women were meant to be, she could also slip into such romantic clichés of femininity.

By Maria Fairweather.
*Carroll & Graf; 400 pages; $30.*
*Constable & Robinson; £25*

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Economist.com BOOKS & ARTS

19th-century exploration

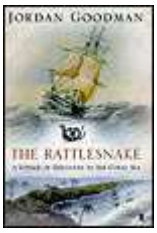
# Waves of fortune

Mar 17th 2005
From The Economist print edition

IN AUGUST 1834, in fine weather, a barque named the *Charles Eaton* was wrecked on Australia's Great Barrier Reef while on passage from Sydney to Surabaya. Nothing more was heard of the vessel until a schooner, the *Isabella*, arrived in Sydney two years later. On board were the cabin boy of the lost ship, a five-year-old child and 17 skulls.

The story of the ship wrecked for want of an accurate chart and of the grisly fate of its passengers, who were murdered after seeking refuge on Boydang island, made headlines around the world. In Britain calls were made for the colonial government to prevent such an event happening again by properly charting the Great Barrier Reef and its hazardous shoals and rocks. The responsibility fell to Francis Beaufort, Hydrographer of the Navy and a man who was clearly obsessive about surveying. "Hydrography", he stated, "is best served by one accurate chart than by ten approximate sketches."

The Rattlesnake: A Voyage of Discovery to the Coral Sea
By Jordan Goodman




*Faber and Faber; 357 pages; £18.99*

Buy it at
Amazon.co.uk

In this comprehensive book, based on unpublished journals, letters and reports, Jordan Goodman skilfully tells how, after two unsuccessful attempts, Beaufort finally found the right man for the job, Captain Owen Stanley. A 35-year-old naval officer with great nautical experience, Captain Stanley was given command of *HMS Rattlesnake*, a 114-feet, 500-ton, 24-year-old frigate. His mandate was to complete a survey of the Great Barrier Reef, the Torres Strait and the southern coast of New Guinea. Stanley was in his element: "I have now as you say a delightful ball at my feet", he wrote to Beaufort, "and you may depend upon it being rolled and kicked to its utmost extent."

The expedition, which called at Madeira, Rio de Janeiro, the Cape of Good Hope and Mauritius en route to Sydney, was also one of scientific discovery. The official naturalist, John MacGillivray, and assistant surgeon, Thomas Huxley (grandfather of Aldous), would spend much of their time gathering specimens, which they sent back to London. The futures of Stanley, MacGillivray and Huxley, and of science, geography and navigation—"cornerstones of British interests abroad"—were dependent on the successful outcome of the voyage.

Mr Goodman is adept at bringing to life the arduous day-to-day work of hydrographic surveying—the taking of astronomical observations, bearings and soundings—and the resulting production of charts showing coastlines, prominent land features, depths of water and dangers such as reefs, shoals and rocks. To convey the magnitude of the task, the author quotes from a letter that Captain Stanley wrote to his cousin Louisa: "To give some small idea of the work we had to do and most of which I had to do myself, our fair charts of Torres Strait took ten of the largest sheets of drawing paper and when put together measured 30 feet in length and contained more than 40,000 soundings to say nothing of the calculations necessary for constructing these said charts."

Small telling details flesh out the narrative. Wine labels bearing Stanley's coat of arms are

ordered, a piano, fiddler and accordion player are taken aboard, as are 39 cases of instruments, 28 chronometers, compasses and “devices for magnetical observations”. Stanley was also instructed to convey treasure to the British colonies, an order he was happy to obey. Commanding officers made 1% commission on the carriage of treasure beyond 1,800 miles; the £65,000 that the *Rattlesnake* delivered would earn Stanley £650, about the same as his annual pay. But, despite such promise, Stanley's life did not turn out as he expected. In 1840, after four gruelling years, he was taken ill and died aged 38.

This is a lively, well-written and rewarding account of the events, successes and disasters of a 19th-century voyage of exploration. The author describes his work as a labour of love. He should be justly proud of it.

By Jordan Goodman.
*Faber and Faber; 357 pages; £18.99*

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British theatre

# A man of all seasons

Mar 17th 2005
From The Economist print edition

PAUL SCOFIELD, who was superbly directed by Peter Brook in “King Lear” in 1962, was first struck by the director's ice-blue eyes. Adrian Mitchell, a poet who was involved in an anti-Vietnam propaganda play directed by Mr Brook, felt he was looking into eyes of astonishing power. Michael Kustow, the staunch, loyal author of this authorised biography, published just as Mr Brook turns 80, refers to “ancient, glittering” eyes—like one of W.B. Yeats's scholar mystics.

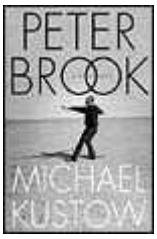
Mr Brook's right eye stares out of the British edition of this book. As a defining image, it reflects other qualities: stubbornness, wilfulness and mischief. After all, this is the stage director who, in the 1960s, declared: “The theatre has to face the death of the word.” Mr Brook has always courted controversy, though he does not always like its consequences. Sir David Hare, an English playwright, caused great offence when he described some of Mr Brook's recent work at his Centre International de Recherches Théâtrales in Paris as an exile's “universal hippie babbling which represents nothing but a fright of commitment.”

The great man, who is impatient with criticism and critics, will have no quarrel with Mr Kustow's sympathetic and comprehensive celebration of a remarkable life in the theatre. It provides what the critics will require—an accurate picture of what Mr Brook has done and said. For example, Mr Kustow identifies an unlikely couple of influential figures: Georgi Ivanovich Gurdjieff, an eccentric Armenian-Russian occultist, who, to express his philosophy generously, believed that people sleepwalk through life and need waking up, and Jerzy Grotowski, a Polish director, who, according to Mr Kustow, is a “teacher in the tradition of the seer and the shaman.”

Mr Brook was born in west London on March 21st 1925, the son of enterprising Russian-Jewish refugees. (His father's pharmaceutical company made a well-known laxative called Brooklax.) A precocious child, he staged a puppet performance of “Hamlet” when he was ten, describing it as being “by William Shakespeare and Peter Brook”. When he directed “Hamlet” again 65 years later at the Bouffes du Nord—the theatre in Paris to which he transferred his affections from London when he was 45—it was renamed “The Tragedy of Hamlet, adapted and directed by Peter Brook”. This version was heavily cut and much transposed. As Mr Brook explained: “I don't think Shakespeare's genius shone through every detail.”

Mr Brook has always believed that he knows best, and there is strong evidence that sometimes he is right—in his “King Lear” and “A Midsummer Night's Dream”, both for the Royal Shakespeare Company, when he had no quarrel with Shakespeare's genius. He also made a memorable film

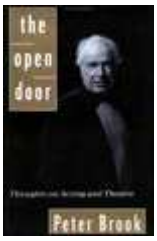
Peter Brook: A Biography
By Michael Kustow




*St Martin's Press; 352 pages; $27.95. Bloomsbury; £25*

Buy it at
Amazon.com
Amazon.co.uk

The Open Door: Thoughts on Acting and Theatre
By Peter Brook




*Anchor Books; 144 pages; $12*

Buy it at
Amazon.com
Amazon.co.uk

adaptation of William Golding's “Lord of the Flies”, his revenge for an unhappy time at English public schools, and a celebrated production of a Hindu epic, “Mahabharata”, which drew a large multi-racial and multi-lingual audience.

Mr Brook provides a compelling account of his eclectic working methods in a short book of lectures called “The Open Door”. Both his account, and Mr Kustow's, suggest that he is happiest with texts that he has prepared himself. He has become his own stage designer and usually chooses his own musical accompaniment. What he likes best is to roll out a carpet under a tree and perform for audiences, like children, who have no knowledge of the conventions of the western theatre. Mr Brook does not like theatres, or box offices, or the pragmatic London theatre producers. He does admit that sponsors are necessary, but “they must be enlightened”.

Perhaps this suggests that Mr Brook is in thrall to an idealistic, other-worldly vision of the theatre. Mr Kustow reckons that his singular achievement is to have breathed life into it. Only a churl would disagree.

Peter Brook: A Biography.
By Michael Kustow.
*St Martin's Press; 352 pages; $27.95.*
*Bloomsbury; £25*

By Peter Brook.
*Anchor Books; 144 pages; $12*

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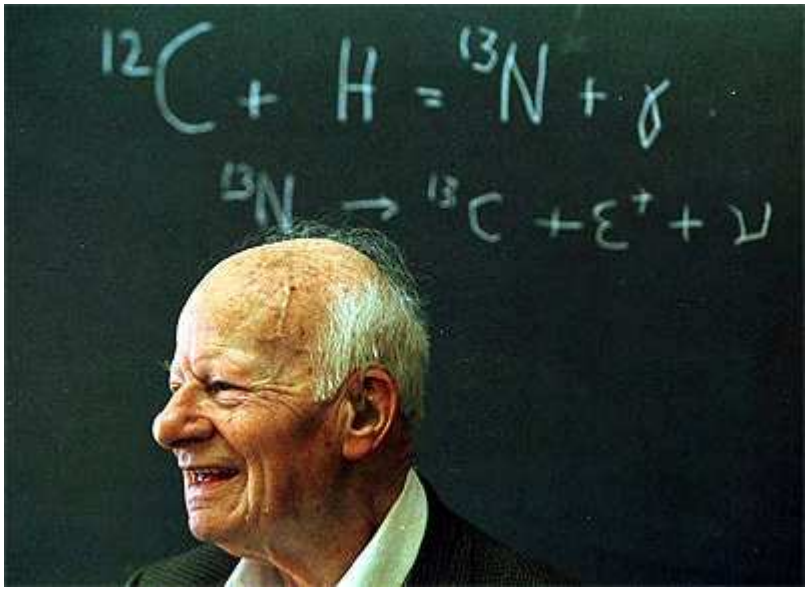
Obituary

# Hans Bethe

Mar 17th 2005
From The Economist print edition

AP




**Hans Bethe, nuclear physicist, died on March 6th, aged 98**

HOW does the sun shine? It is perhaps one of the first questions a curious child asks about the world, and one that has impelled many a curious child to physics. And, until 1938, it was something that no one could satisfactorily explain. Hans Bethe did so, along with much else, in a long and fruitful career. He was the last of a generation of physicists who changed the world: first in the 1920s and 1930s, by coming up with the entirely new theory of quantum mechanics, and then in the 1940s by proving their relevance in the harshest way imaginable—by creating the atomic bomb.

Mr Bethe was famous for his ability to make calculations quickly, a useful talent in the days before computers. It was this that allowed him, in a mere six months, to figure out a problem that had foxed other physicists, and explain what drove nuclear fusion (the process by which two atomic nuclei join and release energy) in the core of the sun. His colleagues could not understand how, as the temperatures of stars increased, they very rapidly became more luminous, so that a star that was ten times as hot would be thousands of times as bright. Mr Bethe saw that only a chain of six reactions, in which carbon acted as a catalyst for the fusion of two hydrogen atoms, would explain what scientists were observing. He was to win the Nobel prize for his calculations.

With the advent of the second world war, Mr Bethe, along with a crowd of other physicists, turned from studying the sun to creating a new one. The Manhattan Project did not start until 1942, three

years into the war, when Robert Oppenheimer assembled his extraordinary team in the high desert of New Mexico, north-west of Santa Fe, to devise an atomic bomb. One of his first acts was to appoint Mr Bethe head of the theory division, the obvious man for the job.

Among the geniuses working under Mr Bethe was Edward Teller, then one of his close friends. The two men fell out in later years: first about the hydrogen bomb, on which Teller was a hawk and Mr Bethe sceptical, and then about the politically motivated persecution of Oppenheimer, who was stripped of his security clearance. Teller was among those leading the attack, while Mr Bethe steadfastly defended the man who had recruited him.

On these matters, and on later attempts to control the bombs he had in part invented, Mr Bethe stood squarely on the side of the angels. It was his duty, he believed, to get closely involved in politics. He helped to get several arms-control treaties ratified in the Senate, most notably the 1963 test-ban treaty, and was early and ardent in his opposition to missile-defence systems, which he said could never be made to work.

He never regretted working on the atomic bomb. When he watched the first test, he wanted only to be sure that the explosion went smoothly; he was not, he said, a philosopher. Unlike Teller, however, he did not become bewitched by his inventions. Instead, he laboured to make sure that they would never be used again.

## Joking round the Big Bang

Mr Bethe was born in Strasbourg, then part of Germany, in 1906. He studied in Munich, Rome and Cambridge and then, in 1935 fled Europe. Though he became, in law and in spirit, an American, he preserved and encapsulated the scientific atmosphere of Copenhagen and Göttingen, the world's main centres of physics in the 1920s and 1930s. At Cornell, the university in upstate New York to which he came in 1935 and which, except for his time in New Mexico, he never left, he made sure that professors' doors were always open. He also remained, well past his retirement in 1975, the epicentre of a vibrant intellectual life. Two of his protégés, Richard Feynman and Freeman Dyson, were among the key figures in quantum electrodynamics, the theory which, in the 1960s, at last provided a correct physical description of light, electricity and magnetism.

Before his writings on the carbon cycle, Mr Bethe produced several papers that endeavoured to pull together the whole theory of nuclear physics. These were known as “Bethe's Bible”. As he himself once said, in those days it was possible for one man to know all of physics. It was far from simple, however; hence his accomplishment in organising threads of research into a coherent whole. Over his lifetime the number of working physicists steadily soared, eliminating the collegiality of his early working life. Mr Bethe pointed out, however, that although the pace is now more hectic, the “progress of fundamental discovery is no faster, and perhaps slower, than in the thirties.”

Like his pupil Feynman, he had a fine sense of humour. In 1948 George Gamow, a fellow pioneer of nuclear physics, added Mr Bethe's name without asking to a paper that explained how chemical elements had been made in the Big Bang. He did this simply so that the paper might be credited to Alpher, Bethe, Gamow, close enough to the first three letters of the Greek alphabet. Mr Bethe not only did not mind, but he gamely proceeded to work on elaborations of the theory. He continued publishing papers, mostly on black holes and supernovae, well into his 90s, relying to the end on an old slide rule to make his calculations. It was, he said, good enough.

# Overview

Mar 17th 2005
From The Economist print edition

The price of **crude oil** set a new high, despite agreement among the 11 members of OPEC to raise production by 500,000 barrels per day. On March 16th, a barrel of West Texas Intermediate oil fetched more than $56 for the first time.

America's **current-account deficit** also broke records, widening to 6.3% of GDP in the last three months of 2004, or more than $750 billion at an annual rate. But in the first month of 2005, America financed its deficit with something to spare. Foreigners made net purchases of long-term American securities worth $92.5 billion in January, more than enough to cover that month's trade deficit of $58.3 billion.

Industrial production in **America** grew by 0.3% in February; the value of retail sales increased by 0.5%, and housing starts rose by 0.5% to a 21-year high.

The statisticians brought some cheer to **Japan**. According to revised estimates, GDP grew by 0.5% at an annual rate in the last quarter of 2004, rather than falling by 0.5% as previously thought. In January, retail sales rose by 2.4%.

Consumer prices in the **euro area** rose by 2.1% in the year to February, above the ECB's ceiling of 2%. But core inflation, which excludes volatile food and energy prices, fell to 1.6%. Inflation has yet to converge across all 12 members of the single currency. In France, inflation was subdued, at 1.6% in the year to February; in Spain, it remained strong, at 3.3% over the same period.

Economic sentiment continues to improve in **Germany**, albeit slowly. According to the ZEW survey for March, the expectations of economists and asset managers rose for the fourth month in a row.

**Canada's** unemployment rate remained at 7% in February, though the manufacturing sector lost more than 28,000 jobs, due in part to the strong Canadian dollar. Exports fell by 1.6% in January, narrowing Canada's trade surplus.

In **Britain**, unemployment on the ILO measure was 4.7% in the three months to January. Average earnings rose by 4.4% over the same period.

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# Output, demand and jobs

Mar 17th 2005
From The Economist print edition

% change on year ago

| | GDP latest | | GDP qtr* | The Economist poll GDP forecasts 2005 | 2006 | Industrial production latest | | Retail sales (volume) latest | | Unemployment % rate latest | | year ago |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Australia** | + 1.5 | Q4 | + 0.6 | + 2.9 | + 3.2 | + 4.2 | Q3 | + 2.2 | Q4 | 5.1 | Feb | 5.9 |
| **Austria** | + 2.7 | Q3 | + 3.2 | + 2.0 | + 2.1 | + 5.4 | Dec | + 2.4 | Dec | 4.5 | Feb | 4.4 |
| **Belgium** | + 2.6 | Q4 | nil | + 2.1 | + 2.2 | + 4.5 | Jan | + 5.9 | Dec | 12.7 | Feb† | 12.8 |
| **Britain** | + 2.9 | Q4 | + 2.9 | + 2.5 | + 2.4 | + 0.1 | Jan | + 3.9 | Jan | 4.7 | Jan†† | 4.8 |
| **Canada** | + 3.0 | Q4 | + 1.7 | + 2.9 | + 2.9 | + 3.3 | Dec | + 4.8 | Nov | 7.0 | Feb | 7.3 |
| **Denmark** | + 2.2 | Q4 | + 2.7 | + 1.9 | + 2.1 | − 1.4 | Jan | + 6.1 | Jan | 6.1 | Jan | 6.6 |
| **France** | + 2.1 | Q4 | + 2.8 | + 1.9 | + 2.1 | + 2.9 | Jan | − 0.7 | Jan | 10.0 | Jan | 9.9 |
| **Germany** | + 1.5 | Q4 | − 0.9 | + 1.1 | + 1.6 | + 3.5 | Jan | − 1.1 | Jan | 11.7 | Feb§ | 10.3 |
| **Italy** | + 1.0 | Q4 | − 1.2 | + 1.2 | + 1.6 | − 1.5 | Jan | − 1.5 | Dec | 7.8 | Sep | 8.4 |
| **Japan** | + 0.8 | Q4 | + 0.5 | + 1.4 | + 1.8 | + 1.1 | Jan | + 2.4 | Jan | 4.5 | Jan | 5.0 |
| **Netherlands** | + 1.3 | Q4 | − 0.3 | + 1.2 | + 1.7 | − 0.5 | Jan | nil | Dec‡ | 6.5 | Feb** | 6.1 |
| **Spain** | + 2.7 | Q4 | + 3.2 | + 2.6 | + 2.6 | + 1.0 | Jan | + 2.1 | Jan | 10.3 | Jan | 11.1 |
| **Sweden** | + 2.0 | Q4 | + 1.4 | + 2.9 | + 2.7 | − 0.5 | Jan | + 6.9 | Jan | 5.5 | Feb† | 6.0 |
| **Switzerland** | + 1.2 | Q4 | − 0.3 | + 1.6 | + 1.8 | + 3.5 | Q3 | − 3.1 | Jan | 4.1 | Feb† | 4.2 |
| **United States** | + 3.9 | Q4 | + 3.8 | + 3.7 | + 3.2 | + 3.5 | Feb | + 4.9 | Jan | 5.4 | Feb | 5.6 |
| **Euro area** | + 1.6 | Q4 | + 0.8 | + 1.6 | + 1.9 | + 1.0 | Dec | − 0.6 | Jan | 8.8 | Jan | 8.9 |
| **MORE COUNTRIES** | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | | | |
| **Finland** | + 3.6 | Q4 | + 2.5 | na | na | + 1.1 | Jan | + 5.1 | Dec | 9.8 | Jan† | 9.5 |
| **Greece** | + 4.2 | Q4 | na | na | na | − 0.9 | Dec | + 2.0 | Dec | 10.5 | Jun | 9.6 |
| **Iceland** | + 3.8 | Q4 | na | na | na | na | | na | | 3.0 | Jan† | 3.7 |
| **Ireland** | + 5.8 | Q3 | na | na | na | + 4.8 | Jan | + 5.3 | Jan | 4.2 | Feb | 4.5 |
| **Luxembourg** | + 2.1 | 2003 | na | na | na | + 5.9 | Dec | − 2.5 | Jan | 4.7 | Jan | 4.4 |
| **New Zealand** | + 4.0 | Q3 | + 1.9 | na | na | + 4.5 | Q3 | + 6.8 | Q4 | 3.6 | Q4 | 4.5 |
| **Norway** | + 3.2 | Q4 | + 6.1 | na | na | − 4.0 | Jan | + 2.5 | Jan | 3.8 | Feb‡ | 4.1 |
| **Portugal** | + 0.6 | Q4 | − 1.1 | na | na | − 2.3 | Jan | + 4.7 | Jan | 7.1 | Q4† | 6.5 |

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡New series. ††Nov-Jan; claimant count rate 2.6% in Feb. §EU harmonised rate 9.6% in Jan. **Dec-Feb.

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# Prices and wages

Mar 17th 2005
From The Economist print edition

% change on year ago

| | Consumer prices | | The Economist poll consumer prices forecast | | Producer prices | | Wages/earnings | |
|---|---|---|---|---|---|---|---|---|
| | latest | year ago | 2005 | 2006 | latest | year ago | latest | year ago |
| **Australia** | + 2.6 Q4 | + 2.4 | + 2.6 | + 2.6 | + 8.2 Q4 | − 1.1 | + 3.0 Q4 | + 6.0 |
| **Austria** | + 2.8 Feb | + 1.4 | + 2.0 | + 1.6 | + 4.6 Feb | + 1.8 | + 2.1 Jan | + 2.2 |
| **Belgium** | + 2.6 Feb | + 1.3 | + 1.8 | + 1.7 | + 3.3 Jan | + 1.9 | + 2.3 Jan | + 1.9 |
| **Britain** | + 1.6 Jan* | + 1.4 | + 1.8 | + 1.8 | + 2.8 Feb | + 1.6 | + 4.4 Jan† | + 4.8 |
| **Canada** | + 2.0 Jan | + 1.2 | + 1.9 | + 2.1 | + 3.2 Jan | − 3.1 | + 2.5 Dec | + 5.1 |
| **Denmark** | + 1.3 Feb | + 0.9 | + 1.4 | + 1.7 | + 3.5 Feb | − 0.1 | + 2.8 Q4 | + 3.5 |
| **France** | + 1.6 Feb | + 1.8 | + 1.7 | + 1.5 | + 2.8 Jan | + 0.3 | + 3.0 Q4 | + 2.7 |
| **Germany** | + 1.8 Feb | + 0.9 | + 1.3 | + 1.1 | + 3.8 Feb | nil | + 1.5 Dec | + 1.5 |
| **Italy** | + 1.9 Feb | + 2.3 | + 2.0 | + 1.9 | + 4.5 Jan | + 0.4 | + 3.3 Dec | + 2.6 |
| **Japan** | − 0.1 Jan | − 0.3 | nil | + 0.3 | + 1.3 Feb | nil | + 0.5 Dec | + 3.0 |
| **Netherlands** | + 1.6 Feb | + 1.2 | + 1.2 | + 1.4 | + 4.7 Jan | − 0.6 | + 1.0 Feb | + 1.9 |
| **Spain** | + 3.3 Feb | + 2.1 | + 2.8 | + 2.6 | + 4.8 Jan | + 0.7 | + 2.2 Q3 | + 3.1 |
| **Sweden** | + 0.7 Feb | − 0.3 | + 1.0 | + 1.7 | + 2.5 Jan | − 2.1 | + 2.0 Dec | + 2.8 |
| **Switzerland** | + 1.4 Feb | + 0.1 | + 1.1 | + 1.2 | + 1.3 Jan | − 0.2 | + 1.4 2003 | + 1.8 |
| **United States** | + 3.0 Jan | + 1.9 | + 2.5 | + 2.4 | + 4.2 Jan | + 3.0 | + 2.5 Feb | + 1.6 |
| **Euro area** | + 2.1 Feb | + 1.6 | + 1.8 | + 1.6 | + 3.9 Jan | + 0.3 | + 2.2 Q4 | + 2.1 |
| **MORE COUNTRIES** | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | |
| **Finland** | + 0.2 Feb | + 0.1 | na | na | + 2.2 Feb | − 1.7 | + 3.0 Q4 | + 4.2 |
| **Greece** | + 3.1 Feb | + 2.5 | na | na | + 2.9 Dec | + 2.1 | na | na |
| **Iceland** | + 4.7 Mar | + 1.8 | na | na | + 8.1 Feb | + 1.4 | + 6.6 Jan | + 3.3 |
| **Ireland** | + 2.2 Feb | + 1.7 | na | na | − 0.4 Jan | − 8.2 | + 5.1 Q4 | + 4.5 |
| **Luxembourg** | + 2.2 Feb | + 2.0 | na | na | +17.0 Dec | + 0.1 | + 2.5 Nov | na |
| **New Zealand** | + 2.7 Q4 | + 1.6 | na | na | + 3.4 Q4 | − 0.1 | + 2.5 Q4 | + 2.3 |
| **Norway** | + 1.0 Feb | − 1.7 | na | na | +14.4 Feb | − 1.3 | + 3.9 Q4 | + 3.9 |
| **Portugal** | + 2.2 Feb | + 2.1 | na | na | + 4.2 Jan | − 0.3 | + 0.6 Jan | nil |

*New series. RPI inflation rate 3.2% in Jan. †Nov-Jan.

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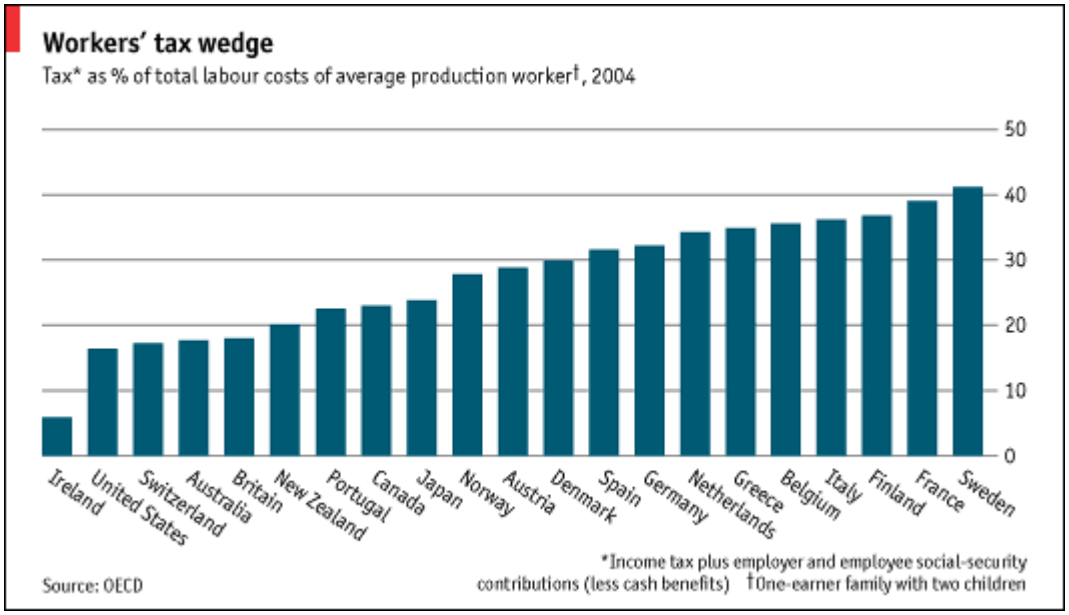
# Workers' tax wedge

Mar 17th 2005
From The Economist print edition




The tax wedge is the difference between workers' take-home pay and the costs of employing them, including income taxes and social-security contributions. In most OECD economies, blue-collar workers with a family saw their tax wedge fall after the mid-1990s. But it rose slightly in 2004, thanks to tax hikes and so-called "fiscal drag"—earnings growth that draws workers into higher tax brackets.

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# Money and interest rates

Mar 17th 2005
From The Economist print edition

| | Money supply* % change on year ago | | | Interest rates % a year (Mar 16th 2005) | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 3-mth money market | | 2-year | 10-year gov't bonds | | corporate |
| | narrow | broad | | latest | year ago | gov't bonds | latest | year ago | bonds |
| **Australia** | + 2.5 | + 9.5 | Jan | 5.83 | 5.48 | 5.59 | 5.68 | 5.29 | 6.58 |
| **Britain** | + 5.7 | + 8.9 | Jan | 4.92 | 4.22 | 4.75 | 4.76 | 4.66 | 5.23 |
| **Canada** | +13.9 | + 9.9 | Jan | 2.47 | 2.02 | 3.15 | 4.47 | 4.16 | 5.66 |
| **Denmark** | +13.5 | + 9.5 | Jan | 2.25 | 2.13 | 2.47 | 3.72 | 4.00 | 5.04 |
| **Japan** | + 4.0 | + 1.9 | Feb | 0.02 | 0.03 | 0.12 | 1.45 | 1.30 | 1.53 |
| **Sweden** | + 2.1 | + 4.5 | Jan | 1.96 | 2.45 | 2.13 | 3.78 | 4.20 | 3.55‡ |
| **Switzerland** | – 5.6 | + 1.7 | Jan | 0.75 | 0.25 | 1.21 | 2.24 | 2.29 | 2.19 |
| **United States** | + 4.1 | + 5.5 | Feb | 2.81 | 0.99 | 3.71 | 4.51 | 3.68 | 5.58 |
| **Euro area†** | + 9.2 | + 6.6 | Jan | 2.14 | 2.05 | 2.42 | 3.62 | 3.84 | 3.90 |

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. ‡New series. Benchmarks: US 30-year 4.79%, Japan No. 268 1.47%. Central bank rates: US fed funds 2.50%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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# The Economist commodity price index

Mar 17th 2005
From The Economist print edition

2000=100

| | Mar 8th | Mar 15th* | % change on one month | % change on one year |
|---|---|---|---|---|
| **Dollar index** | | | | |
| All items | 137.5 | 141.6 | +10.1 | + 2.3 |
| Food | 130.6 | 137.9 | +13.9 | – 2.5 |
| Industrials | | | | |
| All | 146.6 | 146.4 | + 5.8 | + 8.8 |
| Nfa† | 132.3 | 132.8 | + 4.5 | – 6.8 |
| Metals | 154.4 | 153.9 | + 6.4 | +18.2 |
| **Sterling index** | | | | |
| All items | 108.1 | 112.1 | + 8.4 | – 2.9 |
| **Euro index** | | | | |
| All items | 95.3 | 98.4 | + 7.3 | – 5.2 |
| **Yen index** | | | | |
| All items | 133.4 | 137.2 | + 9.8 | – 2.0 |
| **Gold** | | | | |
| $ per oz | 438.88 | 440.53 | + 3.6 | + 9.3 |
| **West Texas Intermediate** | | | | |
| $ per barrel | 54.57 | 54.95 | +16.3 | +46.8 |

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

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# Stockmarkets

Mar 17th 2005
From The Economist print edition

Market indices

| | Mar 16th | 2005 high | 2005 low | % change on one week | % change on record high | % change on Dec 31st 2004 in local currency | % change on Dec 31st 2004 in $ terms |
|---|---|---|---|---|---|---|---|
| Australia (All Ordinaries) | 4,229.9 | 4,229.9 | 4,033.3 | + 0.2 | nil | + 4.4 | + 5.8 |
| Austria (ATX) | 2,681.9 | 2,781.6 | 2,415.0 | – 1.9 | – 3.6 | +10.3 | + 9.0 |
| Belgium (Bel 20) | 3,076.1 | 3,153.1 | 2,958.8 | – 1.8 | –16.5 | + 4.9 | + 3.6 |
| Britain (FTSE 100) | 4,937.6 | 5,060.8 | 4,783.6 | – 1.2 | –28.8 | + 2.6 | + 3.0 |
| Canada (Toronto Composite) | 9,712.6 | 9,927.2 | 9,006.2 | – 0.8 | –14.7 | + 5.0 | + 4.7 |
| Denmark (KBX) | 281.7 | 287.4 | 257.8 | – 0.7 | – 6.6 | + 9.3 | + 7.8 |
| France (SBF 250) | 2,784.8 | 2,844.1 | 2,633.6 | – 1.2 | –36.6 | + 5.7 | + 4.5 |
| (CAC 40) | 4,019.4 | 4,108.0 | 3,816.1 | – 1.2 | –41.9 | + 5.2 | + 3.9 |
| Germany (DAX) | 4,309.1 | 4,428.1 | 4,201.8 | – 1.5 | –46.6 | + 1.2 | nil |
| Italy (S&P/MIB)* | 31,577.0 | 32,371.0 | 30,645.0 | – 1.2 | –37.0 | + 2.2 | + 1.0 |
| Japan (Nikkei 225) | 11,873.2 | 11,966.7 | 11,238.4 | – 0.8 | –69.5 | + 3.3 | + 1.7 |
| (Topix) | 1,198.3 | 1,200.6 | 1,132.2 | – 0.2 | –58.5 | + 4.2 | + 2.6 |
| Netherlands (AEX) | 368.4 | 379.8 | 350.1 | – 2.1 | –47.5 | + 5.8 | + 4.6 |
| Spain (Madrid SE) | 986.7 | 1,025.8 | 950.9 | – 2.2 | –13.9 | + 2.9 | + 1.7 |
| Sweden (Affarsvarlden Gen) | 232.9 | 237.2 | 218.9 | – 1.0 | –41.8 | + 5.3 | + 3.3 |
| Switzerland (Swiss Market) | 5,944.8 | 6,014.6 | 5,669.6 | – 0.3 | –29.3 | + 4.4 | + 3.1 |
| United States (DJIA) | 10,633.1 | 10,940.6 | 10,368.6 | – 1.6 | – 9.3 | – 1.4 | – 1.4 |
| (S&P 500) | 1,188.1 | 1,225.3 | 1,163.8 | – 1.6 | –22.2 | – 2.0 | – 2.0 |
| (NASDAQ Comp) | 2,015.8 | 2,152.2 | 2,008.7 | – 2.2 | –60.1 | – 7.3 | – 7.3 |
| Europe (FTSEurofirst 300)† | 1,079.0 | 1,107.6 | 1,038.6 | – 1.4 | –36.7 | + 3.6 | + 2.3 |
| Euro area (FTSE Euro 100)† | 926.9 | 952.4 | 894.4 | – 1.6 | –40.2 | + 2.9 | + 1.6 |
| World (MSCI)‡ | 1,172.2 | 1,193.0 | 1,128.2 | – 1.1 | –19.1 | + 0.2 | + 0.2 |
| World bond market (Citigroup)†† | 661.5 | 662.3 | 648.6 | + 0.4 | – 0.1 | – 0.7 | – 0.7 |

*New index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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# Trade, exchange rates and budgets

Mar 17th 2005
From The Economist print edition

| | Trade balance*, $bn latest 12 months | | Current-account balance $bn latest 12 mths | | The Economist poll % of GDP, forecast 2005 | 2006 | Exchange rate trade-weighted† 1990=100 Mar 16th | year ago | Currency units per $ Mar 16th | year ago | per £ | per euro | per ¥100 | Budget balance % of GDP 2004‡ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia | − 18.2 | Jan | − 39.4 | Q4 | − 5.7 | − 5.3 | 88.8 | 87.0 | 1.26 | 1.36 | 2.43 | 1.69 | 1.21 | + 0.7 |
| Austria | nil | Dec | − 0.9 | Dec | − 0.8 | − 0.9 | 105.0§ | 104.6 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 1.5 |
| Belgium | + 18.4 | Jan | + 11.7 | Sep | + 3.4 | + 3.5 | 105.8§ | 105.3 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 0.1 |
| Britain | −106.4 | Jan | − 47.4 | Q3 | − 2.7 | − 2.8 | 103.0 | 104.6 | 0.52 | 0.55 | – | 0.70 | 0.50 | − 3.2 |
| Canada | + 51.0 | Jan | + 23.4 | Q4 | + 2.1 | + 1.6 | 94.7 | 85.9 | 1.20 | 1.34 | 2.32 | 1.61 | 1.15 | + 1.1 |
| Denmark | + 9.5 | Jan | + 5.9 | Dec | + 2.4 | + 2.3 | 107.4 | 106.5 | 5.55 | 6.11 | 10.7 | 7.45 | 5.33 | + 0.9 |
| France | − 12.7 | Jan | − 10.3 | Jan | − 0.5 | − 0.4 | 108.6§ | 107.9 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 3.7 |
| Germany | +196.0 | Jan | +103.2 | Jan | + 2.9 | + 3.0 | 106.5§ | 105.8 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 3.9 |
| Italy | − 0.7 | Dec | − 12.6 | Dec | − 1.0 | − 1.1 | 77.7§ | 77.2 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 2.9 |
| Japan | +129.5 | Jan | +169.2 | Jan | + 3.5 | + 3.4 | 135.5 | 136.1 | 104 | 108 | 201 | 140 | – | − 6.5 |
| Netherlands | + 36.8 | Jan | + 24.1 | Q4 | + 3.4 | + 3.3 | 105.4§ | 104.8 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 2.9 |
| Spain | − 75.5 | Dec | − 49.3 | Dec | − 4.2 | − 4.2 | 78.0§ | 77.7 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 1.1 |
| Sweden | + 23.1 | Jan | + 28.0 | Q4 | + 6.8 | + 6.1 | 82.9 | 80.3 | 6.77 | 7.58 | 13.1 | 9.09 | 6.50 | + 0.5 |
| Switzerland | + 8.2 | Jan | + 44.7 | Q3 | +12.1 | +11.7 | 113.8 | 110.7 | 1.15 | 1.28 | 2.22 | 1.55 | 1.11 | − 1.6 |
| United States | −678.1 | Jan | −665.9 | Q4 | − 5.9 | − 5.7 | 89.4 | 96.9 | – | – | 1.93 | 1.34 | 0.96 | − 4.4 |
| Euro area | + 92.5 | Dec | + 52.1 | Dec | + 0.6 | + 0.6 | 94.3 | 90.6 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 2.9 |
| MORE COUNTRIES | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | | | | | |
| Finland | + 13.3 | Jan | + 8.7 | Jan | na | na | 82.6§ | 82.2 | 0.74 | 0.82 | 1.44 | – | 0.72 | + 2.3 |
| Greece | − 31.7 | Dec | − 10.0 | Dec | na | na | 60.5§ | 60.3 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 5.3 |
| Iceland | − 0.6 | Jan | − 1.0 | Q4 | na | na | 99.1** | 93.5 | 58.7 | 70.8 | 113 | 78.8 | 56.3 | + 0.1 |
| Ireland | + 42.0 | Jan | − 1.6 | Q3 | na | na | 96.5§ | 95.5 | 0.74 | 0.82 | 1.44 | – | 0.72 | + 0.2 |
| Luxembourg | − 4.5 | Dec | + 2.3 | Q3 | na | na | 105.8§ | 105.3 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 0.4 |
| New Zealand | − 2.7 | Jan | − 5.3 | Q3 | na | na | 111.9 | 102.4 | 1.36 | 1.54 | 2.62 | 1.83 | 1.31 | + 2.9 |
| Norway | + 35.1 | Feb | + 34.4 | Dec | na | na | 99.8 | 95.2 | 6.14 | 6.94 | 11.8 | 8.25 | 5.90 | + 8.2 |
| Portugal | − 19.1 | Dec | − 13.3 | Dec | na | na | 93.3** | 93.4 | 0.74 | 0.82 | 1.44 | – | 0.72 | − 2.9 |

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, January average. ‡OECD estimate. ††New series.
**IMF, November average.

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# *The Economist* metals index

Mar 17th 2005
From The Economist print edition

Our metals index is at its highest level for 16 years. Demand from China, speculation by investment funds and the weaker dollar have pushed up the dollar prices of many metals.

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# Overview

Mar 17th 2005
From The Economist print edition

Industrial output in **China** grew by 8.9% in the year to January, slowing from growth of 14.4% in the year to December. Consumer prices rose by 3.9% in the year to February, after rising just 1.9% in the year to January.

**Israel's** GDP grew by 4.6% in the year to the fourth quarter, up from 2.9% in the year to the second quarter.

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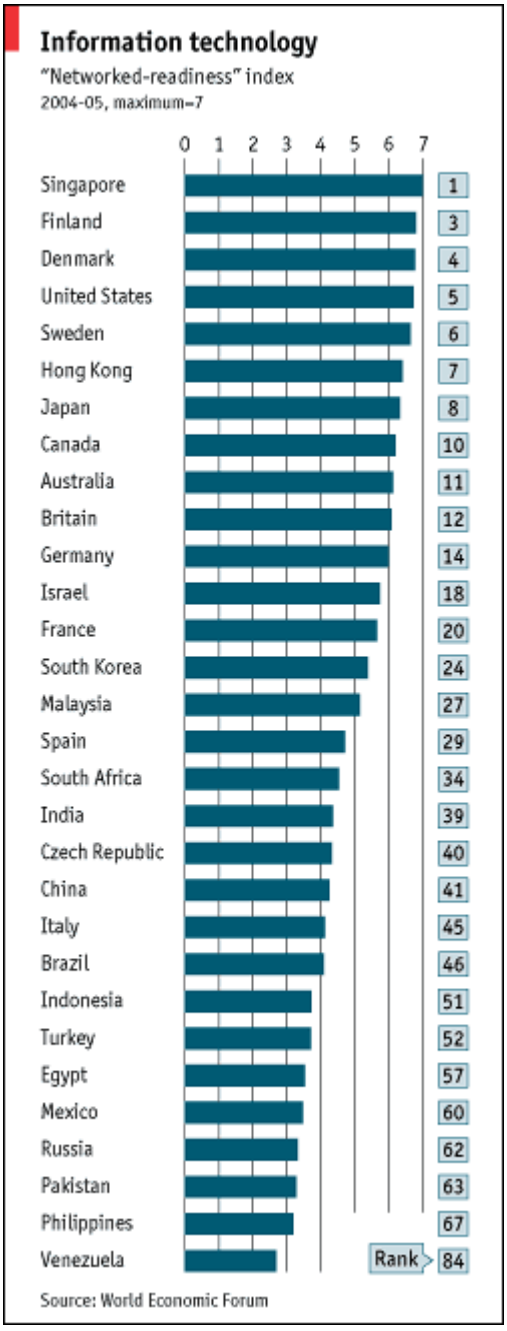
# Information technology

Mar 17th 2005
From The Economist print edition

Singapore has displaced the United States as the country best positioned to exploit information and communication technologies, according to the World Economic Forum. Italy has dropped 17 places in the rankings. The “digital divide” between poor and rich countries has narrowed during the past four years, reports the Forum.

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# Economy

Mar 17th 2005
From The Economist print edition

| | % change on year ago | | | | | | Latest 12 months, $bn | | | | Foreign reserves* $bn, latest | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GDP | | Industrial production | | Consumer prices | | Trade balance | | Current account | | | |
| China | + 9.5 | Q4 | + 8.9 | Jan | + 3.9 | Feb | +51.0 | Feb | +45.9 | 2003 | 609.9 | Dec |
| Hong Kong | + 7.1 | Q4 | + 3.4 | Q3 | – 0.5 | Jan | –12.4 | Jan | +13.7 | Q3 | 123.9 | Feb |
| India | + 6.6 | Q3 | + 8.0 | Jan | + 4.4 | Jan | –25.0 | Feb | + 3.5 | Q3 | 129.8 | Feb |
| Indonesia | + 6.7 | Q4 | – 2.3 | Aug | + 7.2 | Feb | +24.5 | Jan | + 4.0 | Q3 | 34.8 | Jan |
| Malaysia | + 5.6 | Q4 | + 2.9 | Jan | + 2.4 | Feb | +21.7 | Jan | +14.7 | Q3 | 68.8 | Jan |
| Philippines | + 5.4 | Q4 | + 5.7 | Dec | + 8.5 | Feb† | – 0.7 | Dec | + 4.4 | Sep | 13.6 | Feb |
| Singapore | + 6.5 | Q4 | + 9.9 | Jan | + 0.9 | Jan | +15.4 | Jan | +27.9 | Q4 | 113.9 | Feb |
| South Korea | + 4.6 | Q3 | +14.2 | Jan | + 3.3 | Feb | +30.3 | Feb | +29.1 | Jan | 202.1 | Feb |
| Taiwan | + 3.3 | Q4 | +13.0 | Jan | + 1.9 | Feb | + 5.6 | Feb | +19.0 | Q4 | 246.6 | Feb |
| Thailand | + 5.1 | Q4 | + 3.9 | Jan | + 2.5 | Feb | + 0.2 | Jan | + 5.5 | Jan | 47.8 | Jan |
| Argentina | + 8.3 | Q3 | + 4.9 | Jan | + 8.1 | Feb | +12.3 | Jan | + 3.6 | Q3 | 20.8 | Feb |
| Brazil | + 4.9 | Q4 | + 5.9 | Jan | + 7.4 | Feb | +35.1 | Feb | +11.7 | Jan | 53.6 | Jan |
| Chile | + 6.8 | Q3 | + 5.3 | Jan | + 2.1 | Feb | + 9.1 | Feb | + 1.4 | Q4 | 15.5 | Feb |
| Colombia | + 2.4 | Q3 | + 5.2 | Dec | + 5.3 | Feb | + 1.0 | Nov | – 1.4 | Q3 | 13.6 | Jan |
| Mexico | + 4.9 | Q4 | + 3.1 | Jan | + 4.3 | Feb | – 9.5 | Jan | – 8.7 | Q4 | 65.0 | Jan |
| Peru | + 9.1 | Dec | +10.6 | Dec | + 1.7 | Feb | + 2.7 | Dec | – 0.1 | Q4 | 12.3 | Jan |
| Venezuela | +11.2 | Q4 | +23.1 | Nov | +16.9 | Feb | +22.1 | Q4 | +14.6 | Q4 | 18.4 | Dec |
| Egypt | + 4.7 | Q4 | + 3.3 | 2004‡ | +11.4 | Dec | – 8.1 | Q3 | + 4.1 | Q3 | 14.3 | Dec |
| Israel | + 4.6 | Q4 | + 4.4 | Dec | + 0.8 | Feb | – 7.0 | Feb | + 0.5 | Q4 | 27.1 | Feb |
| South Africa | + 4.7 | Q4 | + 7.8 | Dec | + 3.0 | Jan | – 2.4 | Jan | – 4.7 | Q3 | 13.9 | Feb |
| Czech Republic | + 4.3 | Q4 | + 7.2 | Jan | + 1.7 | Feb | – 0.8 | Jan | – 5.6 | Q4 | 27.8 | Feb |
| Hungary | + 3.8 | Q4 | + 2.8 | Jan | + 3.2 | Feb | – 2.5 | Q3 | – 8.6 | Q3 | 17.6 | Feb |
| Poland | + 3.9 | Q4 | + 4.7 | Jan | + 3.6 | Feb | – 6.1 | Dec | – 3.6 | Dec | 39.6 | Jan |
| Russia | + 6.7 | Q4 | + 2.1 | Jan | +12.8 | Feb | +91.1 | Jan | +58.2 | Q4 | 130.4 | Feb |
| Turkey | + 4.5 | Q3 | + 6.8 | Jan | + 8.7 | Feb | –35.2 | Jan | –16.1 | Jan | 37.1 | Jan |
| **MORE COUNTRIES** | Data for the countries below are not provided in printed editions of *The Economist* | | | | | | | | | | | |
| Estonia | + 5.8 | Q4 | + 5.0 | Dec | + 4.5 | Feb | – 2.5 | Dec | – 1.5 | Q3 | 1.6 | Nov |
| Latvia | + 9.1 | Q3 | + 6.0 | Nov | + 6.6 | Jan | – 2.7 | Nov | – 1.7 | Nov | 1.8 | Nov |
| Lithuania | + 6.7 | Q4 | na | | + 3.3 | Feb | – 3.2 | Nov | – 2.0 | Q3 | 3.6 | Nov |
| Slovakia | + 5.3 | Q3 | + 5.5 | Jan | + 2.7 | Feb | – 1.5 | Jan | – 0.9 | Sep | 13.4 | Nov |
| Slovenia | + 4.3 | Q4 | + 6.3 | Dec | + 2.2 | Jan | – 1.5 | Jan | – 0.2 | Jan | 8.2 | Oct |
| Pakistan | + 6.4 | 2004‡ | +28.3 | Nov | + 9.9 | Feb | – 5.2 | Jan | – 0.9 | Q4 | 10.6 | Jan |
| Saudi Arabia | + 7.2 | 2003 | na | | + 0.6 | Dec | +59.1 | 2003 | +28.0 | 2003 | 24.7 | Jan |

*Excluding gold, except Singapore; IMF definition. †New series ‡Year ending June, new series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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# Financial markets

Mar 17th 2005
From The Economist print edition

| | Currency units per $ Mar 16th | Currency units per $ year ago | Currency units per £ Mar 16th | Interest rates short-term % a year | Stockmarkets Mar 16th | % change on one week | % change on Dec 31st 2004 in local currency | % change on Dec 31st 2004 in $ terms |
|---|---|---|---|---|---|---|---|---|
| China | 8.28 | 8.28 | 16.0 | 3.38 | 1,317.5 | -4.7 | - 1.0 | - 1.0 |
| Hong Kong | 7.80 | 7.79 | 15.0 | 2.29 | 13,832.5 | -0.8 | - 2.8 | - 3.1 |
| India | 43.6 | 45.2 | 84.0 | 5.19 | 6,746.9 | -2.1 | + 2.2 | + 2.0 |
| Indonesia | 9,338 | 8,563 | 18,006 | 7.56 | 1,138.2 | +1.9 | + 13.8 | + 13.1 |
| Malaysia | 3.80 | 3.80 | 7.33 | 2.82 | 897.5 | -0.7 | - 1.1 | - 1.1 |
| Philippines | 54.0 | 56.3 | 104.1 | 5.13 | 2,099.1 | -2.7 | + 15.2 | + 19.7 |
| Singapore | 1.62 | 1.70 | 3.12 | 2.00 | 2,169.6 | -0.7 | + 5.0 | + 5.8 |
| South Korea | 1,004 | 1,167 | 1,936 | 3.55 | 993.1 | -1.6 | + 10.9 | + 14.3 |
| Taiwan | 31.0 | 33.2 | 59.8 | 1.35 | 6,072.4 | -2.3 | - 1.1 | + 1.0 |
| Thailand | 38.4 | 39.5 | 74.1 | 2.62 | 706.6 | -2.2 | + 5.8 | + 6.9 |
| Argentina | 2.92 | 2.89 | 5.63 | 4.44 | 1,388.1 | -9.3 | + 0.9 | + 2.7 |
| Brazil | 2.74 | 2.91 | 5.29 | 18.75 | 27,826.0 | -2.4 | + 6.2 | + 2.8 |
| Chile | 589 | 610 | 1,136 | 3.00 | 9,278.2 | -0.9 | + 3.5 | - 2.4 |
| Colombia | 2,374 | 2,656 | 4,577 | 7.37 | 4,647.8 | -7.1 | + 6.9 | + 6.0 |
| Mexico | 11.2 | 11.0 | 21.6 | 9.37 | 13,096.6 | -4.2 | + 1.4 | + 0.8 |
| Peru | 3.26 | 3.47 | 6.29 | 2.83 | 4,188.5 | +0.2 | + 12.9 | + 13.5 |
| Venezuela | 2,834§ | 3,449§ | 5,466 | 12.59 | 30,203.6 | -1.8 | + 0.8 | - 8.3 |
| Egypt | 5.80 | 6.19 | 11.19 | 10.17** | 38,650.1 | -1.2 | + 57.2 | + 64.5 |
| Israel | 4.31 | 4.49 | 8.30 | 1.00 | 674.5 | -1.2 | + 4.8 | + 5.1 |
| South Africa | 6.05 | 6.78 | 11.7 | 7.60 | 13,555.1 | -0.2 | + 7.1 | - 0.3 |
| Czech Republic | 22.2 | 27.2 | 42.9 | 2.07 | 1,143.4 | -8.5 | + 10.8 | + 11.3 |
| Hungary | 184 | 210 | 354 | 7.48 | 16,908.4 | -8.5 | + 14.7 | + 12.8 |
| Poland | 3.03 | 3.87 | 5.84 | 6.10 | 26,807.7 | -5.0 | + 0.6 | - 0.4 |
| Russia | 27.5 | 28.5 | 53.0 | 13.00 | 677.1‡ | -5.5 | + 9.3 | + 10.3 |
| Turkey | 1.32 | 1.32 | 2.54 | 17.59 | 25,331.7 | -17.6 | + 1.4 | + 3.7 |
| EMF (MSCI)* | 1.00 | 1.00 | 1.93 | na | 566.0 | -3.6 | + 4.4 | + 4.4 |
| EMBI+† | 1.00 | 1.00 | 1.93 | na | 327.5 | -2.1 | - 0.6 | - 0.6 |

*Emerging Mkts Free. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate. **New series.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Economist Intelligence Unit; Reuters; J.P. Morgan Chase; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; FIEL; EFG-Hermes; Bank Leumi Le-Israel; Standard Bank Group; Akbank; Deutsche Bank

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